

# Interest Earnings

**Capital Land Grant Interest**

**Coal Trust Interest**

**Common School Interest & Income**

**Cultural & Aesthetics Trust Interest**

**Deaf & Blind Trust Interest**

**Parks Trust Interest**

**Pine Hills Trust Interest & Income**

**Regional Water Trust Interest**

**Resource Indemnity Trust Interest**

**Tobacco Settlement Trust Interest**

**Treasure State Endowment Interest**

**Treasury Cash Account Interest**



**Legislative Fiscal Division**



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

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**Revenue Description:** Lands granted by the federal government to the state generate income from a variety of sources. Section 12 of the *Enabling Act* requires that income generated on certain sections of federally granted land be used for public buildings at the state capital for construction, repair, renovation, and other permanent improvements of state buildings. Capital land grant funds can also be used for the acquisition of land for such buildings, as well as the payment of principal and interest on bonds issued for any of these purposes.

Non-permanent sources of revenue generated from capital land grant lands include: grazing fees, agricultural fees, miscellaneous fees and rentals, and oil and natural gas leases and penalties. Statute requires that 3.0 percent of total non-permanent revenue be diverted to the Department of Natural Resources and Conservation (DNRC) for resource development purposes. Senate Bill 48, passed by the 1999 legislature, allows an amount up to 10 percent of the previous year's revenue to be diverted each year to a state special revenue account used to fund the Trust Land Management Division of DNRC. Permanent sources of revenue generated from capital land grant lands include timber sales and oil and natural gas royalties. A portion of timber sale revenue is diverted to DNRC to fund a portion of its timber program based on the amount appropriated by the legislature (the remaining portion is funded with timber sale revenue from the common school and other land trusts that generate timber revenue).

**Applicable Tax Rate(s):** N/A

**Distribution:** After divisions for DNRC administration, all remaining capital land grant income is deposited into a capital projects fund to be used for projects on the state capital complex in accordance with the provisions of Section 12 of the *Enabling Act*.

**Collection Frequency:** Monthly

#### Major Drivers:

- Revenue received for commodities produced or extracted from trust lands (i.e. grazing and agricultural rents, mineral royalties)
- Diversions of revenue for administration

#### Potential Factors Influencing Change:

- Economic Factors
  - Commodity prices
  - Commodity production
- Social Factors – None
- Legislative Factors
  - State legislative impacts
    - Prices and rental charges set by the Board of Land Commissioners
    - Constitutional restrictions on types of investments (i.e. no investments in equities)
    - Appropriations of revenue for administration
    - Statutory allocation of revenue for administration
  - Federal legislative impacts - None

**Data Source(s):** SABHRS, *Wall Street Journal*, Department of Natural Resources and Conservation

**Contacts:** Department of Administration, Department of Natural Resources and Conservation

#### Statutory Reference:

Tax Rate – NA

Tax Distribution (MCA) – 18-2-107

# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

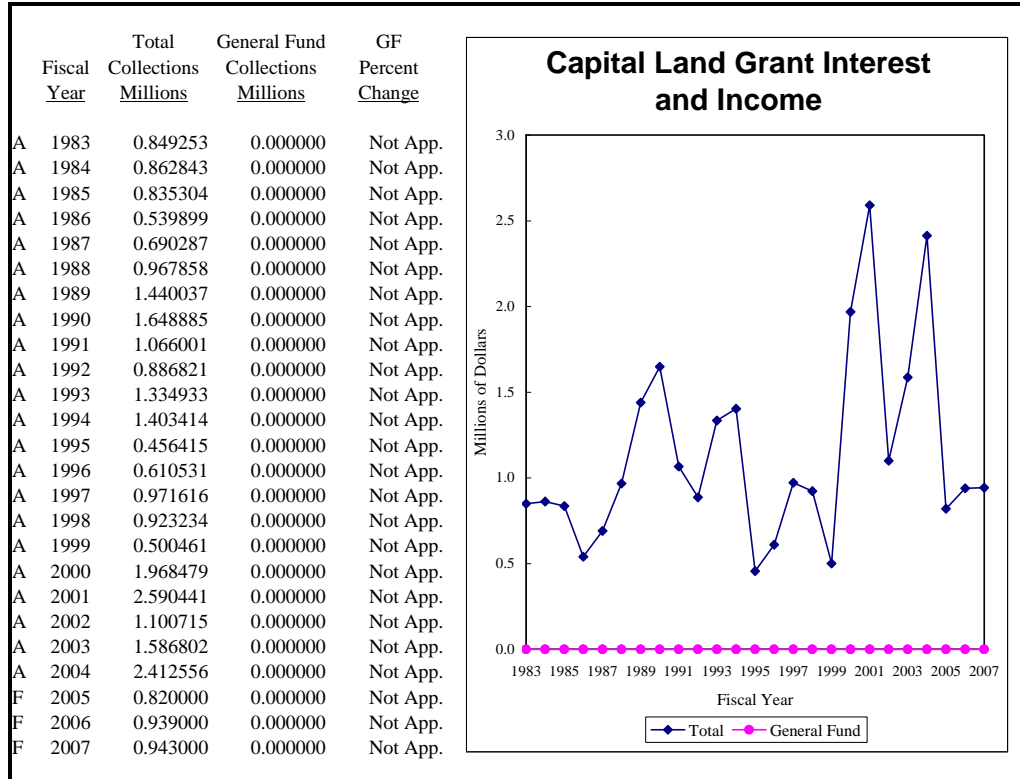
Other (MCA) – DNRC trust land administration diversion (77-1-109)  
 DNRC timber sale program diversion (77-1-613)  
 DNRC land bank administration diversion (77-2-362)  
 DNRC resource development diversion (77-1-607)  
 Enabling Act, Sections 10, 12 & 17

**% of Total FY 2004 General Fund Revenue:** N/A

**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

Capital land grant income consists of four income and three expense sources that are estimated independently: 1) income; 2) permanent income; 3) trust land management administration costs; and 4) resource development expenses. Income is estimated by summing grazing fees, agricultural fees, miscellaneous fees, oil and gas leases and penalties, and miscellaneous rentals. Permanent capital land grant income consists of royalties from the sale of oil, natural gas, miscellaneous income sources, and timber. Timber sale revenue is reduced by a portion of the amount appropriated to DNRC to fund the timber sales program. The amount of distributable income is also reduced by the estimated amounts of trust land management administrative costs and a 3 percent resource development allocation to derive the total estimate for the capital land grant income revenue.

#### Revenue Projection:

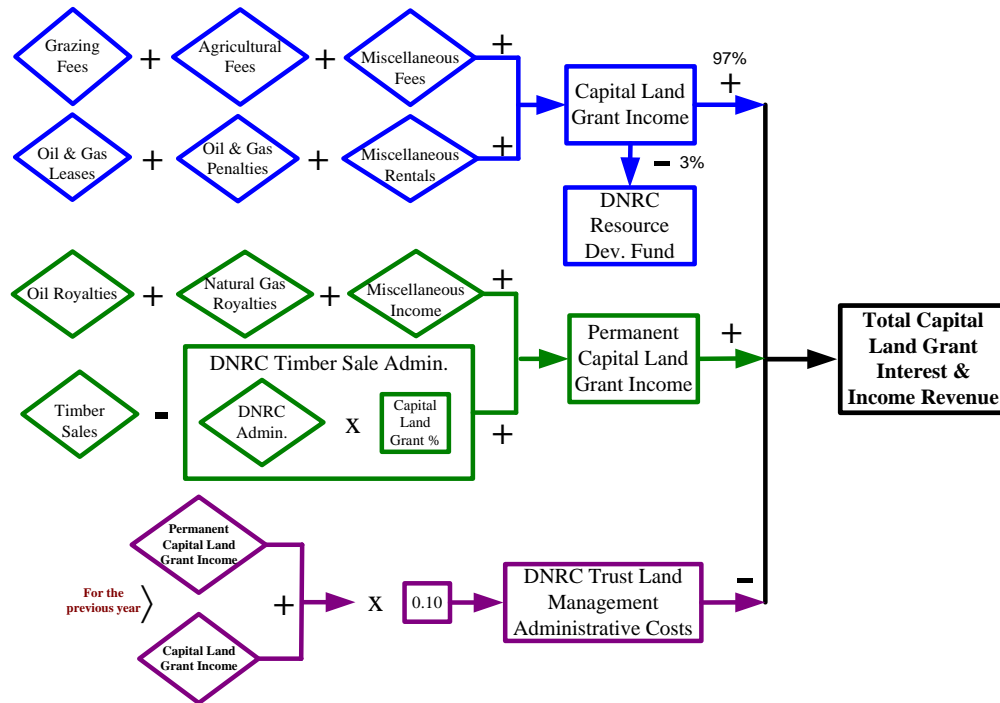


# Legislative Fiscal Division

## Revenue Estimate Profile

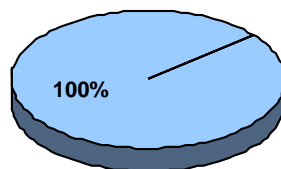
### Capital Land Grant Interest and Income

#### Forecast Methodology



#### Distribution Methodology

##### Capital Projects Fund



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

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#### Revenue Estimate Assumptions

|          | <u>t</u>      | <u>Total Rev.</u> | <u>GF Rev.</u>  | <u>TFBP</u>     | <u>STIP</u>     | <u>Capital</u>    |
|----------|---------------|-------------------|-----------------|-----------------|-----------------|-------------------|
|          | <u>Fiscal</u> | <u>Millions</u>   | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> | <u>Land Share</u> |
|          |               |                   |                 | <u>Millions</u> | <u>Millions</u> | <u>T&amp;L</u>    |
| Actual   | 2000          | 1.968479          | 0.000000        |                 |                 | 0.000000          |
| Actual   | 2001          | 2.590441          | 0.000000        |                 |                 | 0.000000          |
| Actual   | 2002          | 1.100715          | 0.000000        | 29.670198       | 0.102471        | 0.000000          |
| Actual   | 2003          | 1.586802          | 0.000000        | 29.146744       | 0.068370        | 0.000000          |
| Actual   | 2004          | 2.412556          | 0.000000        | 30.087011       | 0.053502        | 0.000000          |
| Forecast | 2005          | 0.820000          | 0.000000        | 30.090667       | 0.293644        | 0.000000          |
| Forecast | 2006          | 0.939000          | 0.000000        | 30.273418       | 0.351193        | 0.000000          |
| Forecast | 2007          | 0.943000          | 0.000000        | 30.371250       | 0.389633        | 0.000000          |

|          | <u>t</u>      | <u>Trust Income</u> | <u>Trust Land</u> | <u>New Deposit</u> | <u>Non Pool</u> | <u>Non Pool</u> |
|----------|---------------|---------------------|-------------------|--------------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u>  | <u>Admin.</u>     | <u>Long Term</u>   | <u>STIP</u>     | <u>STIP Bal</u> |
|          |               | <u>Millions</u>     | <u>Millions</u>   | <u>Rate</u>        | <u>Rate</u>     | <u>Millions</u> |
| Actual   | 2000          | 10.962021           |                   | 7.0160%            | 5.9500%         | 11.676486       |
| Actual   | 2001          | 12.667782           | -0.048140         | 6.8830%            | 6.6400%         | 6.984553        |
| Actual   | 2002          | 2.105811            | -0.151480         | 6.3370%            | 3.5945%         | 7.334239        |
| Actual   | 2003          | 2.345732            | 29.129953         | 5.7290%            | 2.1032%         | 6.242273        |
| Actual   | 2004          | 2.936728            | 30.041549         | 5.3680%            | 1.9674%         | 7.049634        |
| Forecast | 2005          | 3.326972            | -0.241256         | 5.4930%            | 2.9685%         | 7.049634        |
| Forecast | 2006          | 1.666932            | -0.149939         | 5.8690%            | 4.3184%         | 7.049634        |
| Forecast | 2007          | 1.666932            | -0.154533         | 6.1860%            | 4.8225%         | 7.049634        |

|          | <u>t</u>      | <u>Grazing</u>  | <u>Agriculture</u> | <u>Misc.</u>    | <u>O&amp;G Lease</u> | <u>O&amp;G Bonus</u> | <u>O&amp;G Penalty</u> | <u>Misc.</u>    |
|----------|---------------|-----------------|--------------------|-----------------|----------------------|----------------------|------------------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u>    | <u>Millions</u> | <u>Millions</u>      | <u>Millions</u>      | <u>Millions</u>        | <u>Millions</u> |
| Actual   | 2000          | 0.132580        | 0.044452           | 0.000000        | 0.019153             | 0.009104             | 0.002343               | 0.048046        |
| Actual   | 2001          | 0.159924        | 0.043153           | 0.000000        | 0.013722             | 0.002980             | 0.003287               | 0.064391        |
| Actual   | 2002          | 0.173945        | 0.030825           | 0.000000        | 0.018286             | 0.002180             | 0.004428               | 0.090509        |
| Actual   | 2003          | 0.170050        | 0.043195           | 0.000000        | 0.018497             | 0.001020             | 0.004170               | 0.069849        |
| Actual   | 2004          | 0.132298        | 0.088177           | 0.000000        | 0.017818             | 0.000000             | 0.005399               | 0.059222        |
| Forecast | 2005          | 0.160081        | 0.043600           | 0.000000        | 0.018200             | 0.000000             | 0.004666               | 0.067120        |
| Forecast | 2006          | 0.143272        | 0.043316           | 0.000000        | 0.018172             | 0.000000             | 0.004745               | 0.068485        |
| Forecast | 2007          | 0.132298        | 0.043370           | 0.000000        | 0.018063             | 0.000000             | 0.004937               | 0.067803        |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

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|          | <u>t</u>      | <u>Int. Land</u> | <u>Int. STIP</u> | <u>Int. Trust</u> | <u>Res. Dev.</u> | <u>Lease Total</u> | <u>Timber Cost</u> |
|----------|---------------|------------------|------------------|-------------------|------------------|--------------------|--------------------|
|          | <u>Fiscal</u> | <u>Millions</u>  | <u>Millions</u>  | <u>Millions</u>   | <u>Millions</u>  | <u>Millions</u>    | <u>Millions</u>    |
| Actual   | 2000          | 0.000000         | 0.000000         | 0.000000          | -0.007670        | 0.248008           |                    |
| Actual   | 2001          | 0.000000         | 0.000000         | 0.000000          | -0.008268        | 0.279189           |                    |
| Actual   | 2002          | 0.000000         | 0.000000         | 0.000000          | -0.008838        | 0.311335           |                    |
| Actual   | 2003          | 0.000000         | 0.000000         | 0.000000          | -0.009311        | 0.297470           | 0.000000           |
| Actual   | 2004          | 0.000000         | 0.000000         | 0.000000          | -0.012622        | 0.290292           | 0.000000           |
| Forecast | 2005          | 0.000000         | 0.000000         | 0.000000          | -0.008810        | 0.284857           | -0.429222          |
| Forecast | 2006          | 0.000000         | 0.000000         | 0.000000          | -0.008340        | 0.269650           | -0.447630          |
| Forecast | 2007          | 0.000000         | 0.000000         | 0.000000          | -0.007994        | 0.258477           | -0.448291          |

|          | <u>t</u>      | <u>Oil Roy.</u> | <u>Gas Roy.</u> | <u>Timber</u>   | <u>Misc.</u>    | <u>Perm. Total</u> |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|--------------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u>    |
| Actual   | 2000          | 0.004394        | 0.004489        | 1.675671        | 0.028247        | 1.712801           |
| Actual   | 2001          | 0.005659        | 0.008068        | 2.278363        | 0.010894        | 2.302984           |
| Actual   | 2002          | 0.003264        | 0.002190        | 0.769197        | 0.005891        | 0.780542           |
| Actual   | 2003          | 0.004461        | 0.013330        | 1.238901        | 0.023329        | 1.280021           |
| Actual   | 2004          | 0.003492        | 0.027817        | 1.231369        | 0.846964        | 2.109642           |
| Forecast | 2005          | 0.003166        | 0.027817        | 1.155222        | 0.019516        | 0.776499           |
| Forecast | 2006          | 0.002987        | 0.027817        | 1.216130        | 0.020404        | 0.819708           |
| Forecast | 2007          | 0.002904        | 0.027817        | 1.235970        | 0.020927        | 0.839327           |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

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**Revenue Description:** Article IX, Section 5 of the Montana Constitution requires that 50.0 percent of all coal severance tax revenue be deposited in a permanent coal trust fund and that the principal of the trust "shall forever remain inviolate unless appropriated by a three-fourths vote of each house". Coal severance tax funds flowing into the trust fund are first used to secure and subsidize state bonds issued to finance water resource and renewable resource development projects and activities. Through fiscal 2003, the remainder of the funds was then split 75 (37.5 percent of total revenue) percent to the treasure state endowment trust fund and 25 percent (12.5 percent of total revenue) to the treasure state endowment regional water system trust fund. With the enactment of House Bill 610 by the 2001 legislature, beginning fiscal 2004 the remaining funds are then split 50 percent (25 percent of total revenue) to the treasure state endowment trust fund, 25 percent (12.5 percent of total revenue) to the treasure state endowment regional water system trust fund, and 25 percent (12.5 percent of total revenue) to the permanent trust fund. By statute, interest earned on the permanent trust that is not earmarked to other programs is deposited to the general fund. When calculating interest earnings, the impact of loans made from the trust, such as the in-state investment program, are taken into account.

As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created trust fund bond pool (TFBP). The majority of permanent coal tax trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's short-term investment pool (STIP). In addition, state law provides that trust funds may be used for in-state commercial loans to stimulate economic development. The state Constitution prohibits the investment of the permanent trust in common stock.

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest earned on the permanent coal tax trust fund is deposited into the general fund. Statute further annually transfers and statutorily appropriates (see the exception in fiscal 2005) interest income from \$140 million of the coal severance tax permanent fund as follows:

Fiscal 2005

- \$3,650,000\* – to the research and commercialization state special revenue account
- \$1,250,000 – for the growth through agriculture program
- \$600,000 – to DofA to reimburse tax increment financing industrial districts
- \$425,000 – to the Department of Commerce for certified regional development corporations
- \$300,000 – to the Department of Commerce for export trade enhancement
- \$200,000 – to the Department of Commerce for the Montana manufacturing extension center at MSU-Bozeman
- \$125,000 – to the Department of Commerce for a small business development center
- \$65,000 – to the Cooperative Development Center
- \$50,000 – to the Department of Commerce for a small business innovative research program
- \$6,665,000

\* The money is not statutorily appropriated, but is directed by statute to be transferred.

Fiscal 2006 - 2010

- \$3,650,000 – to the research and commercialization state special revenue account
- \$1,250,000 – for the growth through agriculture program
- \$425,000 – to the Department of Commerce for certified regional development corporations
- \$300,000 – to the Department of Commerce for export trade enhancement
- \$200,000 – to the Department of Commerce for the Montana manufacturing extension center at MSU-Bozeman
- \$125,000 – to the Department of Commerce for a small business development center
- \$65,000 – to the Cooperative Development Center
- \$50,000 – to the Department of Commerce for a small business innovative research program
- \$6,065,000



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

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**Collection Frequency:** Monthly

**Major Drivers:**

- Interest and bond rates on loans and investments
- Balance in the coal severance tax permanent fund available for investment
- Water bond subsidy

**Potential Factors Influencing Change:**

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Coal price
  - Coal production costs
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Coal severance tax and distribution related changes
    - Constitutional restrictions on types of investments (i.e. no investments in equities)
    - Appropriations from the coal severance tax permanent fund
    - Authorization of loans at less return than other investments
    - Diversion of coal severance tax revenue from the coal severance tax permanent fund
  - Federal legislative impacts
    - Influences on national interest and bond rates

**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:** Board of Investments

**Statutory Reference:**

Tax Rate – NA

Distribution (MCA)– Montana Constitution, Article IX, Section 5; 17-5-704; 15-35-108(7)

Date Due - NA

**% of Total FY 2004 General Fund Revenue:** 2.53%

**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast permanent trust interest earnings is a multi-step process. In order to estimate total investment earnings for the trust, income must be calculated on five separate components: 1) permanent trust pool interest; 2) interest on new deposits; 3) in-state investment interest; 4) short-term interest earnings; and 5) interest earned on other non-pool balances.

The first step involves determining the permanent trust TFBP earnings. For the first year to be estimated, the applicable portion of the TFBP at the end of the previous fiscal year is multiplied by the estimated long-term TFBP interest rate. Subsequent years are estimated by adding the forecast amount of the coal tax allocation for that year (less the applicable percentage of the water bond subsidy) multiplied by the long-term interest rate to the last year’s estimate. Investment income on new deposits is calculated by multiplying the

Revenue Estimates as adopted by the

# Legislative Fiscal Division

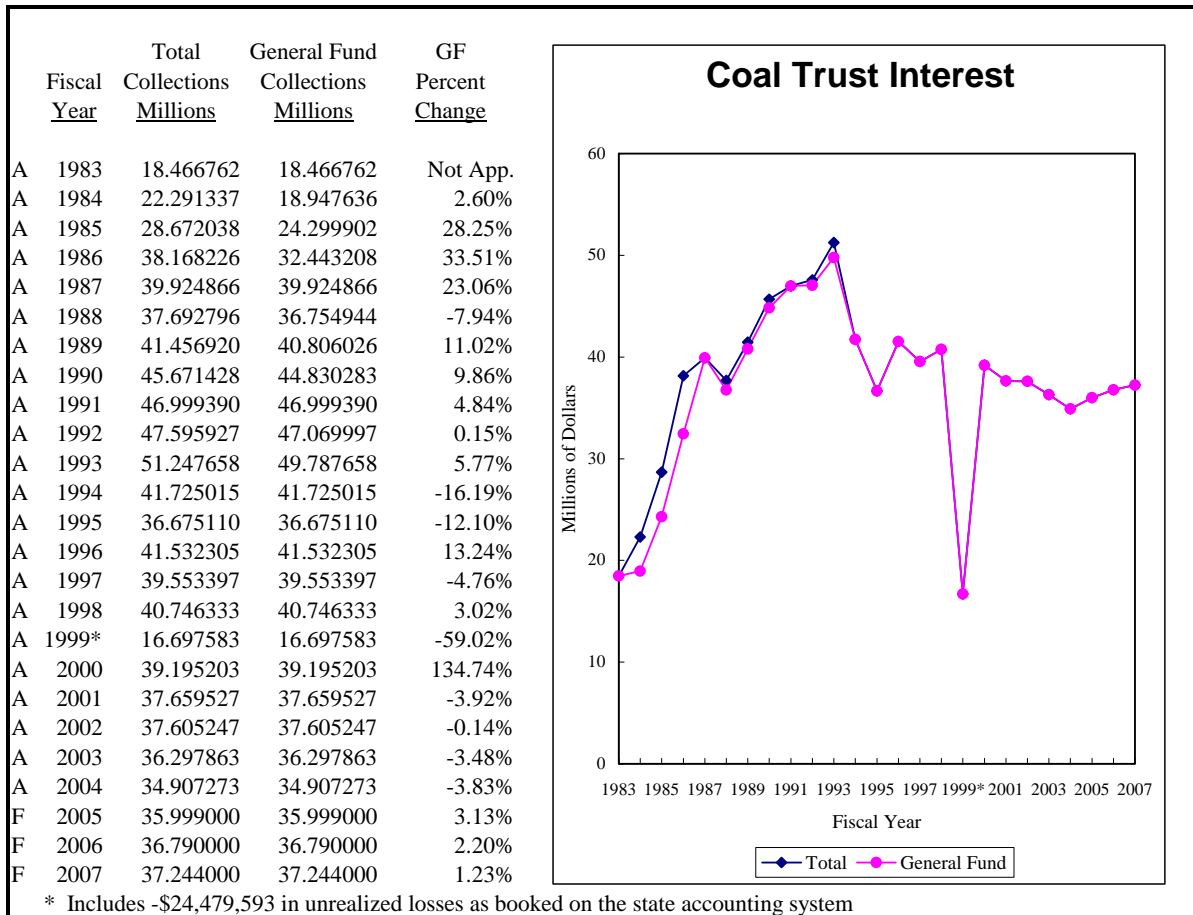
## Revenue Estimate Profile

### Coal Trust Interest

forecast amount for quarterly coal severance tax collections (less a portion of the water bond subsidy) by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term TFBP interest rate thereafter. Coal severance tax collections are forecast as part of the coal severance tax methodology.

In-state investment interest is determined by multiplying the amount of principal loaned times the interest rate charged on the loans. Additionally, because a portion of the trust is invested on a short-term basis, an assumption is made for the balance of trust funds in STIP. This balance is then multiplied by the short-term interest rate to determine short-term interest income. Other non-TFBP investment balances are estimated and multiplied by the applicable interest rates. Once investment income has been calculated for these components, the sum comprises total permanent trust investment income.

#### Revenue Projection:

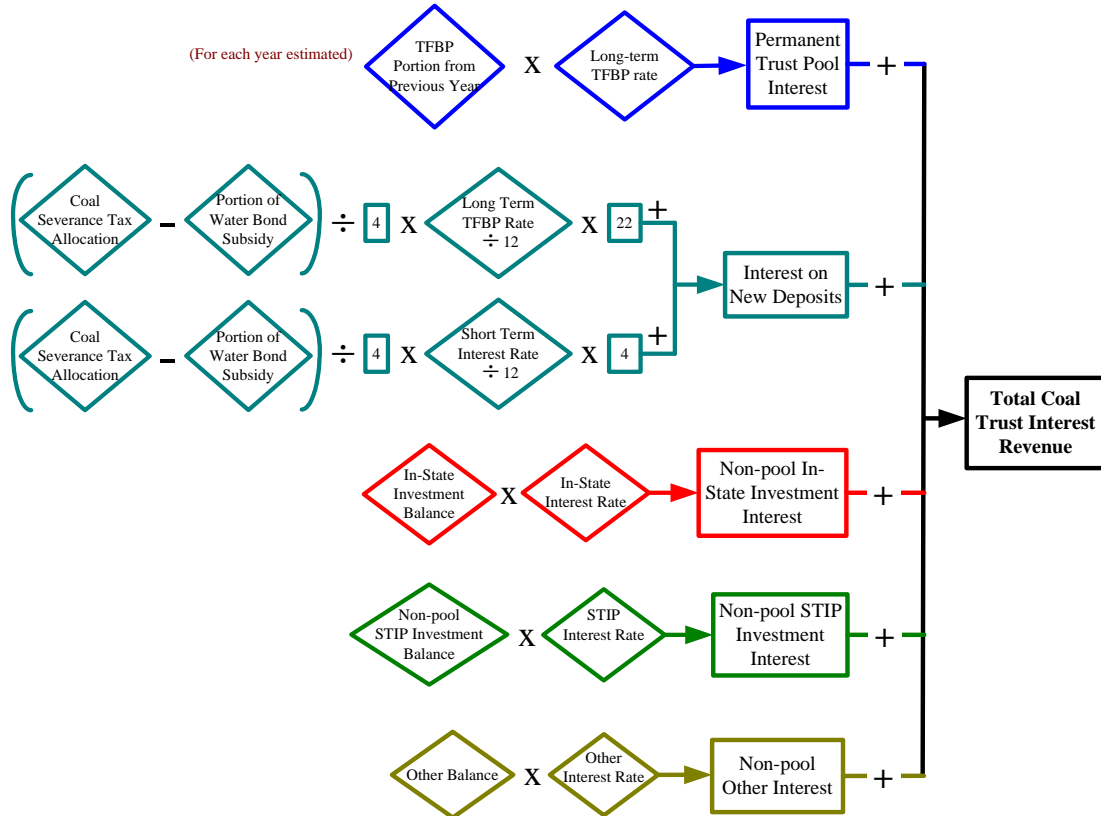


# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

#### Forecast Methodology



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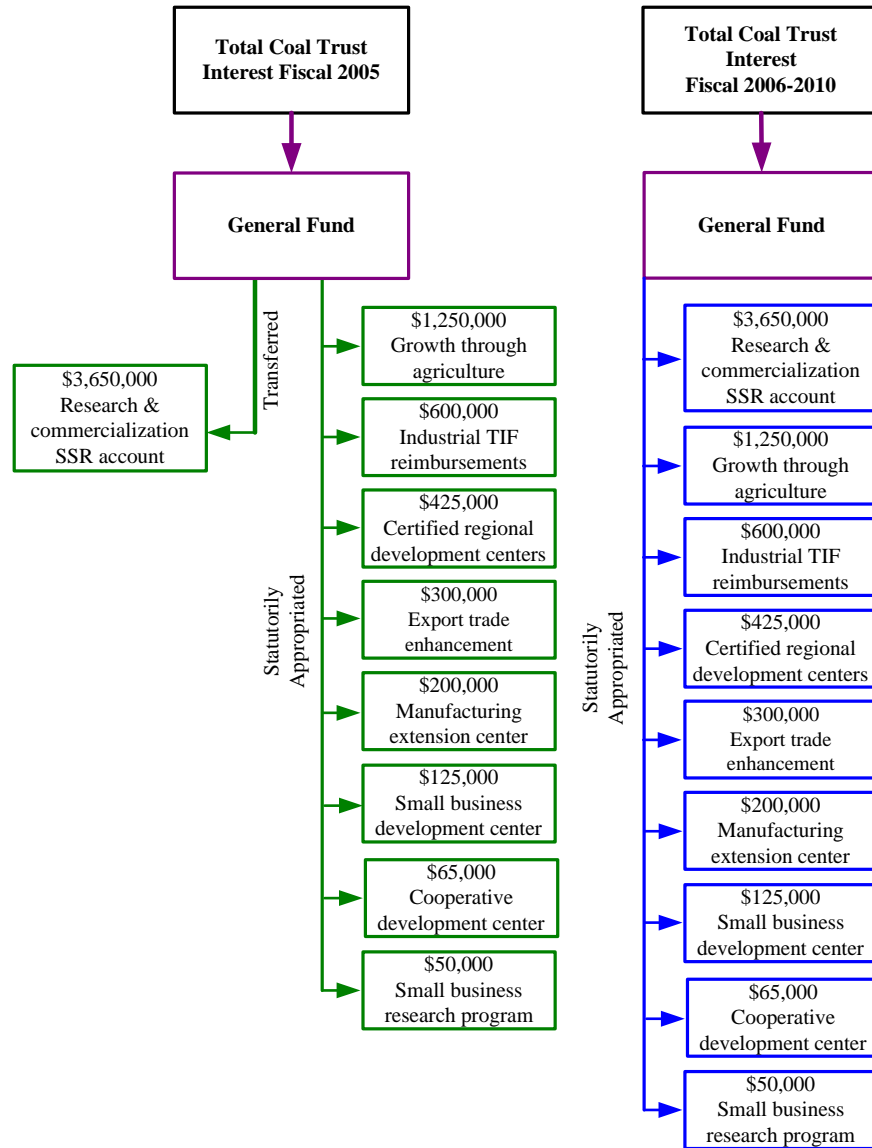
# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

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#### Distribution Methodology



# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

#### Revenue Estimate Assumptions

|          | <u>t</u>      | <u>Total Rev.</u> | <u>GF Rev.</u>  | <u>TFBP</u>     | <u>In_State</u> | <u>Loan</u>     | <u>STIP</u>     | <u>Payback</u>  |
|----------|---------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u>   | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> | <u>Interest</u> | <u>Interest</u> | <u>Interest</u> |
|          |               |                   |                 | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 39.195203         | 39.195203       |                 |                 |                 |                 |                 |
| Actual   | 2001          | 37.659527         | 37.659527       |                 |                 |                 |                 |                 |
| Actual   | 2002          | 37.605247         | 37.605247       | 24.373985       | 8.764717        | 3.369609        | 1.096936        |                 |
| Actual   | 2003          | 36.297863         | 36.297863       | 21.079491       | 10.501432       | 4.328664        | 0.388276        |                 |
| Actual   | 2004          | 34.907273         | 34.907273       | 22.273639       | 8.721596        | 3.460652        | 0.451386        |                 |
| Forecast | 2005          | 35.999000         | 35.999000       | 22.831818       | 8.418899        | 3.271684        | 1.341353        | 0.135503        |
| Forecast | 2006          | 36.790000         | 36.790000       | 23.050494       | 8.418899        | 3.085659        | 1.911659        | 0.323990        |
| Forecast | 2007          | 37.244000         | 37.244000       | 23.282320       | 8.418899        | 2.871954        | 2.130867        | 0.540523        |

|          | <u>t</u>      | <u>Net Coal Tax</u> | <u>Bond</u>     | <u>New Deposit</u> | <u>Non Pool</u> | <u>Non Pool</u> | <u>Non Pool</u> |
|----------|---------------|---------------------|-----------------|--------------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u>  | <u>Subsidy</u>  | <u>Long Term</u>   | <u>STIP</u>     | <u>In State</u> | <u>Loan</u>     |
|          |               | <u>Millions</u>     | <u>Millions</u> | <u>Rate</u>        | <u>Rate</u>     | <u>Rate</u>     | <u>Rate</u>     |
| Actual   | 2000          | 0.000000            | 0.193782        | 6.3370%            | 5.9500%         | 5.9500%         | 0.0000%         |
| Actual   | 2001          | 0.000000            | 0.480790        | 6.8830%            | 6.6400%         | 5.7700%         | 0.0000%         |
| Actual   | 2002          | 0.000000            | 0.264847        | 6.3370%            | 3.5945%         | 5.5860%         | 7.2673%         |
| Actual   | 2003          | 0.000000            | 0.780492        | 5.7290%            | 2.1032%         | 5.5860%         | 7.0000%         |
| Actual   | 2004          | 3.943085            | 1.473545        | 5.3680%            | 1.9674%         | 5.3917%         | 7.3445%         |
| Forecast | 2005          | 3.981000            | 1.309205        | 5.4930%            | 2.9685%         | 5.3917%         | 7.3445%         |
| Forecast | 2006          | 3.950000            | 1.183767        | 5.8690%            | 4.3184%         | 5.3917%         | 7.3445%         |
| Forecast | 2007          | 4.034000            | 0.691478        | 6.1860%            | 4.8225%         | 5.3917%         | 7.3445%         |

|          | <u>t</u>      | <u>Non Pool</u> | <u>Non Pool</u>     | <u>Non Pool</u> | <u>SB495 Loan</u> |
|----------|---------------|-----------------|---------------------|-----------------|-------------------|
|          | <u>Fiscal</u> | <u>STIP Bal</u> | <u>In-State Bal</u> | <u>Loan Bal</u> | <u>Payment</u>    |
|          |               | <u>Millions</u> | <u>Millions</u>     | <u>Millions</u> | <u>Millions</u>   |
| Actual   | 2000          | 15.334577       | 127.567412          | 0.000000        |                   |
| Actual   | 2001          | 22.784722       | 145.401756          | 0.000000        |                   |
| Actual   | 2002          | 26.721811       | 168.249355          | 46.366904       |                   |
| Actual   | 2003          | 37.107451       | 169.737929          | 46.366904       |                   |
| Actual   | 2004          | 41.478106       | 156.145542          | 46.366904       |                   |
| Forecast | 2005          | 41.478106       | 156.145542          | 44.546044       | 1.820860          |
| Forecast | 2006          | 41.478106       | 156.145542          | 42.013200       | 2.532844          |
| Forecast | 2007          | 41.478106       | 156.145542          | 39.103464       | 2.909736          |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

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**Revenue Description:** Lands granted by the federal government to the state for the benefit of public schools generate income. The common school trust is actually part of the trust and legacy trust fund that includes nine other trusts. Prior to fiscal 1996, interest and income from the common school trust was deposited in the state equalization account. Beginning in fiscal 1996, this interest and income was deposited in the general fund, as mandated by SB 83, passed by the 1995 legislature. Beginning fiscal 2003, House Bill 7 from the August 2002 special legislative session changed the deposit to the state special revenue guarantee account and statutorily appropriated the money for schools. The estimates show the amount of revenue deposited to the guarantee account and are net of amounts diverted (of mineral royalties, timber sale revenue, and income) for DNRC administration costs. Included is timber revenue for school technology and the amounts of mineral royalty revenue that is required to pay interest and principal on the SB 495 loan. These items are explained below.

Common school lands produce two kinds of revenue: 1) distributable income such as interest earnings, agricultural rents or crop shares, and timber sale revenue; and 2) permanent income that is returned to the trust such as income from the sale of minerals (see the effects of Senate Bill 495 from the 2003 legislative session below), land, and easements. Excluding the amount of timber sale revenue diverted for DNRC administration and school technology and after a 3.0 percent deduction of the revenue for use by the Department of Natural Resources and Conservation (DNRC), 95 percent of distributable revenue is available to fund schools and, due to Senate Bill 48 (discussed below), the remaining 5.0 percent is available to fund the Trust Land Management Division of DNRC. The 3.0 percent allocation to DNRC is used for resource development purposes. Timber revenue is allocated: 1) first to DNRC to fund a portion of its timber program based on the amount appropriated by the legislature (the remaining portion is funded with timber sale revenue from the capital land grant and other land trusts that generate timber revenue); 2) the amount received from production over 18 million board feet is deposited into the state special revenue fund for school technology equipment and training and is statutorily appropriated to OPI (House Bill 41 enacted by the 2001 legislature and House Bill 7 from the August 2002 special legislative session); and 3) any remainder for the support of public schools.

Senate Bill 48, passed by the 1999 legislature, provides for the diversion of the following funds for the purpose of funding the Trust Land Management Division in the DNRC: 1) mineral royalties; 2) revenues from the sale of easements; and 3) 5.0 percent of interest and income previously credited to the common school trust. The amount of the money diverted from the common school trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

As of October 1, 1995, all fixed-income investments held by the state's major trust funds (which include the trust and legacy fund of which the common school trust is a part), were transferred to a newly-created Trust Fund Bond Pool (TFBP). The majority of common school trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's Short Term Investment Pool (STIP). The state Constitution prohibits the investment of common school trust funds in common stock. Interest income is distributed 95 percent to the guarantee account and 5 percent is available for DNRC administration with the remainder deposited to the trust.

Senate Bill 495 (enacted by the 2001 legislature) authorized DNRC to purchase the mineral production rights (with a loan from the coal severance trust) from the common school trust. The department subsequently purchased \$138.9 million of future mineral royalties (over an approximate 30-year period) from the school trust for \$46.4 million. Since these royalties will no longer be deposited to the trust, interest earnings from the trust corpus are lessened. However, additional interest earnings are generated from the proceeds of the sale, but it is estimated that interest losses will exceed interest gains after fiscal 2012. It is estimated that the trust balance will be \$94.7 million less after the 30-year period. For further information and analysis on Senate Bill 495 contact the Legislative Fiscal Division for a copy of the two-part report: "Senate Bill 495-Implementation, Impacts and Implications".

**Applicable Tax Rate(s):** N/A

**Distribution:** As described above, interest and income from common school lands (including a portion of timber sales and after amounts diverted for DNRC administration) are distributed 95.0 percent to the state special revenue guarantee account and is statutorily appropriated for schools. The remaining 5.0 percent is available to fund the Trust Land Management Division with the remainder deposited to the trust fund. The amounts deposited to the guarantee account are shown in this revenue source.

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

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**Collection Frequency:** Revenue is received monthly, however, distribution to the state special revenue fund takes place three times per year.

#### Major Drivers:

- Interest and bond rates on investments
- Balance in the common school trust fund available for investment
- Revenue received for commodities produced or extracted from trust lands (i.e. grazing and agricultural rents, mineral royalties)
- Diversions of revenue for administration

#### Potential Factors Influencing Change:

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Commodity prices
  - Commodity production
- Social Factors – Pressures to increase funding for schools
- Legislative Factors
  - State legislative impacts
    - Prices and rental charges set by the Board of Land Commissioners
    - Constitutional restrictions on types of investments (i.e. no investments in equities)
    - Appropriations of revenue for administration
    - Statutory allocation of revenue for administration
    - Diversion of revenue from the common school trust fund (i.e. timber and mineral royalties [SB 495])
  - Federal legislative impacts
    - Influences on national interest and bond rates

**Data Source(s):** Board of Investments, DNRC - Centralized Services, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:** Department of Natural Resources and Conservation

#### Statutory Reference:

Tax Rate – NA

Distribution (MCA) – Montana Constitution Article X, Section 5; 20-9-342 (school technology); 20-9-622 (guarantee account)

Other (MCA) – DNRC trust land administration diversion (77-1-109)

DNRC timber sale program diversion (77-1-613)

DNRC land bank administration diversion (77-2-362)

DNRC resource development diversion (77-1-607)

Enabling Act, Section 10

Date Due - the last business day of February following the calendar year in which the money was received (20-9-342).

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

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**% of Total FY 2004 General Fund Revenue:** 0.00%

**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast common school interest and income is a multi-step process. Estimating total interest and income revenue involves calculating interest income and income derived from school lands, including timber sale revenue.

Interest Income - Interest income is derived from investment of the common school trust funds, as well as interest on land sales. In order to calculate total investment earnings for the common school trust, income must be calculated on three separate components: 1) common school trust portion of the TFBP interest; 2) interest on new deposits; and 3) short-term interest earnings.

The first step involves determining the trust and legacy pool interest earnings. For the first year to be estimated, the applicable portion of the pool at the end of the previous fiscal year is multiplied by the estimated long-term pool interest rate. Subsequent years are estimated by adding the forecast amount of new deposits (less amounts used to fund the Trust Land Management Division) for that year multiplied by the long-term interest rate to the last year’s estimate. Investment income on new deposits is calculated by multiplying the forecast amount (less amounts used to fund the Trust Land Management Division) by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term pool interest rate thereafter.

Interest on new deposits (less amounts used to fund the Trust Land Management Division) is calculated by multiplying the forecast amount for trust and legacy income by the appropriate interest rate. The interest rate and invested balance varies in accordance with the timing of when new monies become available. For example, revenues received for the first month of the biennium will earn interest at the short-term (STIP) rate for one month, after which they will earn interest at the long-term rate for the remainder of the biennium. In addition, because a portion of the trust is invested on a short-term basis, an assumption is made for the balance of trust funds in STIP. This balance is then multiplied by the short-term interest rate to determine short-term interest income.

Once the three components have been calculated, the sum of the three is multiplied by the percent of income attributable to the common school trust portion of the trust and legacy trust fund. The product is added to the amount of interest expected from land sales, mineral royalties, and interest on STIP investments, to comprise total common school interest income.

Income From School Lands - Common school income is estimated by first computing the total of six different types of revenue: grazing fees, agricultural fees, miscellaneous fees, oil and gas leases, oil and gas penalties, and miscellaneous rentals. The estimate used for each of these sources comes from historical data trends, economic trends, industry input, and similar sources. Once total income from common school lands (excluding timber sales) is determined, the 3.0 percent of revenues diverted to DNRC for resource development is calculated.

Interest and income revenue is calculated by adding common school income (excluding the portion of DNRC timber sale program appropriations that is applicable to the common school trust timber sales and the portion allocated for school technology) and common school interest then subtracting the resource development diversion. Of this amount, 95 percent is distributed to the guarantee account for schools. Timber sale income allocated for school technology acquisition (the amount from timber production over 18 million board feet) is also deposited to the guarantee account.

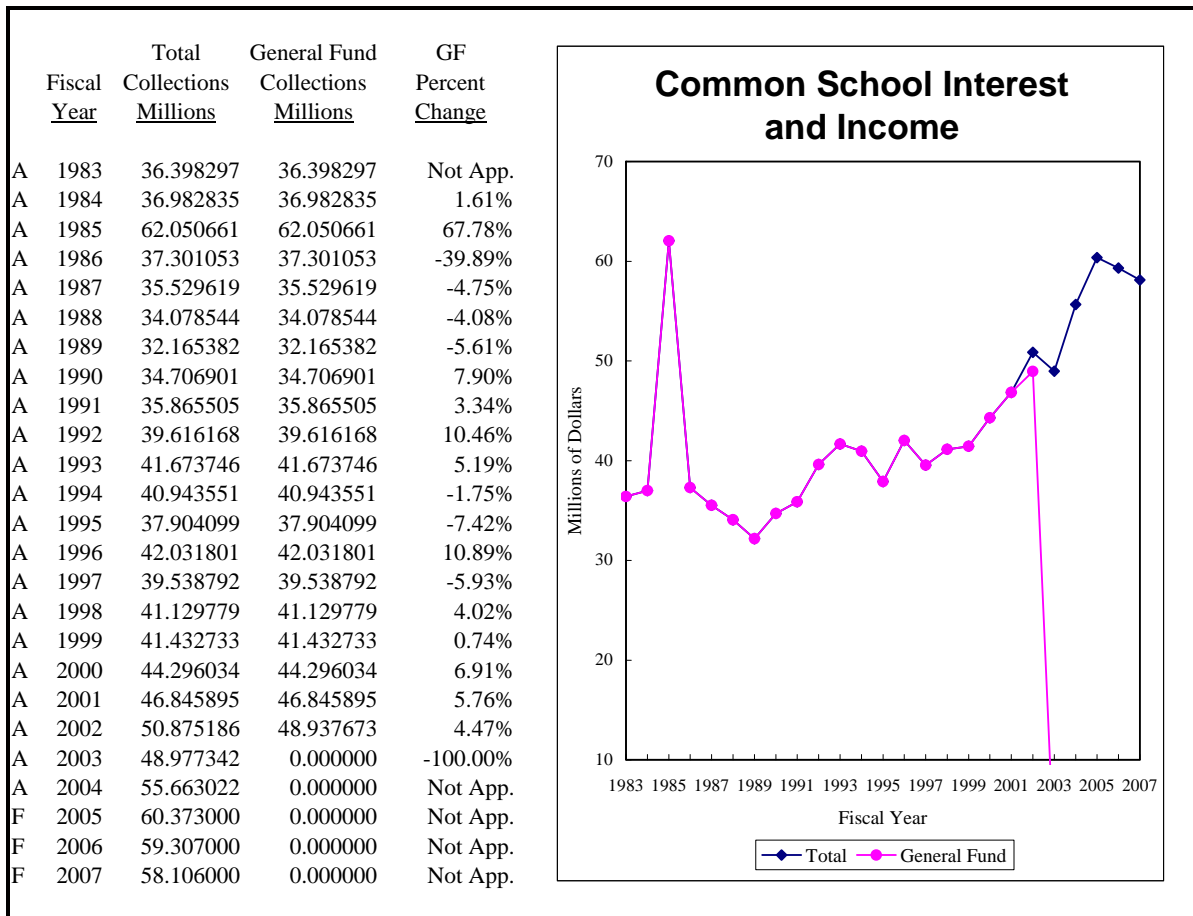


# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

#### Revenue Projection:

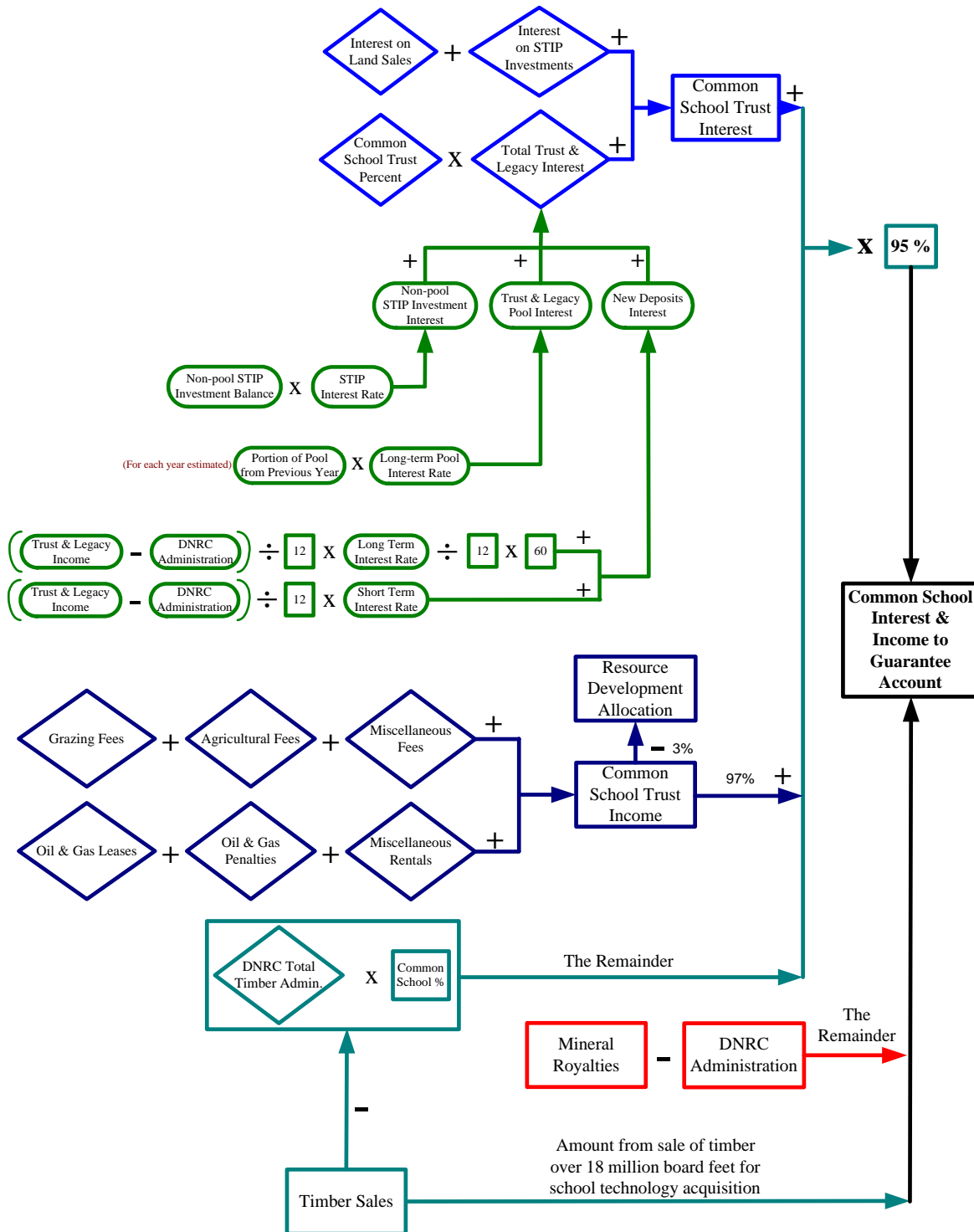


# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

#### Forecast Methodology



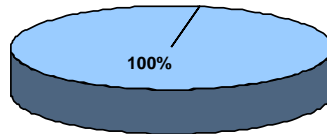
# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

#### Distribution Methodology

**State Special Revenue Fund**



#### Revenue Estimate Assumptions

|          | t             | Total Rev.      | GF Rev.         | TFBP            | STIP            | Common              | SB495            | Trust Land      |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|---------------------|------------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> | <u>School Share</u> | <u>Loan Pay.</u> | <u>Expense</u>  |
|          |               |                 |                 | <u>Millions</u> | <u>Millions</u> | <u>T&amp;L</u>      | <u>Millions</u>  | <u>Millions</u> |
| Actual   | 2000          | 44.296034       | 44.296034       |                 |                 | 0.938562            |                  |                 |
| Actual   | 2001          | 46.845895       | 46.845895       |                 |                 | 0.923235            |                  |                 |
| Actual   | 2002          | 50.875186       | 48.937673       | 29.670198       | 0.102471        | 0.932906            |                  |                 |
| Actual   | 2003          | 48.977342       | 0.000000        | 29.146744       | 0.068370        | 0.931091            | 0.000000         | -3.477507       |
| Actual   | 2004          | 55.663022       | 0.000000        | 30.087011       | 0.053502        | 0.928698            | -1.820860        | -3.367569       |
| Forecast | 2005          | 60.373000       | 0.000000        | 30.090667       | 0.293644        | 0.928698            | -2.532844        | -3.762020       |
| Forecast | 2006          | 59.307000       | 0.000000        | 30.273418       | 0.351193        | 0.928698            | -2.909736        | -3.723091       |
| Forecast | 2007          | 58.106000       | 0.000000        | 30.371250       | 0.389633        | 0.928698            | -2.639808        | -3.727938       |

|          | t             | Trust Income       | New Deposit      | Non Pool    | Non Pool        | SB495           |
|----------|---------------|--------------------|------------------|-------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u> | <u>Long Term</u> | <u>STIP</u> | <u>STIP Bal</u> | <u>Interest</u> |
|          |               | <u>Millions</u>    | <u>Rate</u>      | <u>Rate</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 10.962021          | 7.0160%          | 5.9500%     | 11.676486       |                 |
| Actual   | 2001          | 12.667782          | 6.8830%          | 6.6400%     | 6.984553        |                 |
| Actual   | 2002          | 2.105811           | 6.3370%          | 3.5945%     | 7.334239        |                 |
| Actual   | 2003          | 2.345732           | 5.7290%          | 2.1032%     | 6.242273        |                 |
| Actual   | 2004          | 2.936728           | 5.3680%          | 1.9674%     | 7.049634        |                 |
| Forecast | 2005          | 3.326972           | 5.4930%          | 2.9685%     | 7.049634        | -3.271684       |
| Forecast | 2006          | 1.666932           | 5.8690%          | 4.3184%     | 7.049634        | -3.085659       |
| Forecast | 2007          | 1.666932           | 6.1860%          | 4.8225%     | 7.049634        | -2.871954       |

|          | t             | Grazing         | Agriculture     | Misc.           | O&G Lease       | O&G Bonus       | O&G Penalty     | Misc.           |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 4.065911        | 9.053155        | 0.000000        | 1.328220        | 1.277231        | 0.261334        | 1.127779        |
| Actual   | 2001          | 4.850839        | 8.376539        | 0.000000        | 1.448285        | 7.118093        | 0.355322        | 1.121433        |
| Actual   | 2002          | 5.467322        | 6.998644        | 0.000000        | 1.540472        | 0.478224        | 0.334699        | 1.243778        |
| Actual   | 2003          | 5.243241        | 7.974945        | 0.000000        | 1.575356        | 0.300943        | 0.399347        | 1.348894        |
| Actual   | 2004          | 4.970961        | 8.051131        | 0.000000        | 1.648808        | 0.870693        | 0.533758        | 2.156382        |
| Forecast | 2005          | 6.014863        | 8.134205        | 0.000000        | 1.710287        | 0.870693        | 0.300323        | 1.479381        |
| Forecast | 2006          | 5.383302        | 8.053427        | 0.000000        | 1.750523        | 0.870693        | 0.316366        | 1.567445        |
| Forecast | 2007          | 4.970961        | 8.026501        | 0.000000        | 1.783975        | 0.870693        | 0.327899        | 1.647899        |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

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|          | <u>t</u>      | <u>Int. Land</u> | <u>Int. STIP</u> | <u>Int. Trust</u> | <u>Timber</u>   | <u>Res. Dev.</u> |
|----------|---------------|------------------|------------------|-------------------|-----------------|------------------|
|          | <u>Fiscal</u> | <u>Millions</u>  | <u>Millions</u>  | <u>Millions</u>   | <u>Millions</u> | <u>Millions</u>  |
| Actual   | 2000          | 0.000566         | 0.706653         | 23.905761         | 5.379555        | -0.513416        |
| Actual   | 2001          | 0.000290         | 0.715090         | 24.206450         | 1.623592        | -0.698124        |
| Actual   | 2002          | 0.000063         | 0.305319         | 27.775111         | 3.624785        | -0.504023        |
| Actual   | 2003          | 0.019744         | 0.188794         | 27.201941         | 3.605510        | -0.499362        |
| Actual   | 2004          | 0.002900         | 0.199526         | 27.991422         | 6.147357        | -0.517845        |
| Forecast | 2005          | 0.003176         | 0.409780         | 28.217849         | 1.950001        | -0.555293        |
| Forecast | 2006          | 0.003176         | 0.592016         | 28.441015         | 1.946999        | -0.538253        |
| Forecast | 2007          | 0.003176         | 0.658442         | 28.567571         | 1.930999        | -0.528838        |

|          | <u>t</u>      | <u>Total</u>    | <u>Timber</u>     | <u>School</u>     | <u>Oil</u>       | <u>Gas</u>       | <u>Coal</u>      | <u>Other</u>     |
|----------|---------------|-----------------|-------------------|-------------------|------------------|------------------|------------------|------------------|
|          | <u>Fiscal</u> | <u>Timber</u>   | <u>Sales Pgm.</u> | <u>Technology</u> | <u>Royalties</u> | <u>Royalties</u> | <u>Royalties</u> | <u>Royalties</u> |
|          |               | <u>Millions</u> | <u>Millions</u>   | <u>Millions</u>   | <u>Millions</u>  | <u>Millions</u>  | <u>Millions</u>  | <u>Millions</u>  |
| Actual   | 2000          | 7.067954        | -1.688399         | 0.000000          |                  |                  |                  |                  |
| Actual   | 2001          | 3.200298        | -1.576706         | 0.000000          |                  |                  |                  |                  |
| Actual   | 2002          | 5.753895        | -2.129110         | 1.822162          | 2.390492         | 1.523062         | 2.836919         | 0.144369         |
| Actual   | 2003          | 5.507588        | -1.674571         | 0.000000          | 3.681611         | 1.995499         | 3.877054         | 0.148393         |
| Actual   | 2004          | 9.244105        | -2.952003         | 3.178988          | 4.851597         | 2.718035         | 4.676964         | 0.169754         |
| Forecast | 2005          | 8.688036        | -3.228036         | 1.600000          | 6.249826         | 3.523033         | 6.480205         | 0.173178         |
| Forecast | 2006          | 8.936471        | -3.366471         | 1.700000          | 6.166049         | 3.692504         | 5.330303         | 0.173178         |
| Forecast | 2007          | 8.885449        | -3.371449         | 1.700000          | 6.351832         | 3.576332         | 4.185829         | 0.173178         |

|          | <u>t</u>      | <u>Oil</u>        | <u>Gas</u>        | <u>Coal</u>       | <u>Oil</u>       | <u>Gas</u>    | <u>Coal</u>   |
|----------|---------------|-------------------|-------------------|-------------------|------------------|---------------|---------------|
|          | <u>Fiscal</u> | <u>Production</u> | <u>Production</u> | <u>Production</u> | <u>Price</u>     | <u>Price</u>  | <u>Price</u>  |
|          |               | <u>Barrels</u>    | <u>MCF's</u>      | <u>Tons</u>       | <u>\$/Barrel</u> | <u>\$/MCF</u> | <u>\$/Ton</u> |
| Actual   | 2000          | 0.923777          | 5.050552          | 3.273552          | 21.666084        | 1.732951      | 10.980000     |
| Actual   | 2001          | 0.889786          | 6.294741          | 3.285378          | 28.029154        | 3.775439      | 11.440000     |
| Actual   | 2002          | 0.911057          | 5.892287          | 1.835880          | 21.394771        | 2.249212      | 11.500000     |
| Actual   | 2003          | 1.017463          | 5.380950          | 3.494901          | 28.140000        | 3.200000      | 9.590000      |
| Actual   | 2004          | 1.122987          | 5.720200          | 3.911826          | 31.020000        | 3.950000      | 8.600000      |
| Forecast | 2005          | 1.340506          | 6.408044          | 6.056798          | 35.863760        | 4.398263      | 8.559248      |
| Forecast | 2006          | 1.532037          | 7.011222          | 5.020664          | 30.959529        | 4.213250      | 8.493384      |
| Forecast | 2007          | 1.694761          | 7.526791          | 3.932936          | 28.830171        | 3.801176      | 8.514411      |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

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**Revenue Description:** Beginning in fiscal 1976, a portion of coal severance tax revenue was deposited into the Parks Acquisition and Arts Protection trust fund. The 1991 legislature split the principal of this trust into two separate trusts, the Parks Acquisition trust and the Arts Protection trust (cultural trust), with coal severance taxes allocated to each one. The 1997 legislature appropriated \$3.9 million from the cultural trust fund for the immediate purchase of Virginia and Nevada City properties. This action resulted in a loss of trust interest revenue that otherwise would be used to fund cultural and aesthetic (C&A) projects in the state during the 1999 biennium. Thus, beginning July 1, 1997, and ending June 30, 1999, 0.87 percent in coal severance tax revenue was allocated to an account in the state special revenue fund to compensate for the lost interest earnings and the previous 0.63 percent distribution of coal severance tax to the cultural trust was eliminated. Except for fiscal 2003, beginning July 1, 1999, the amount of 0.63 percent is once again statutorily allocated to the cultural trust, the interest from which is to be used for the purpose of protection of works of art in the capitol and for other cultural and aesthetic projects. The August 2002 special legislative session eliminated the allocation for fiscal 2003 only.

**Applicable Tax Rate(s):** N/A

**Distribution:** All income from the trust is deposited in a state special revenue fund to be appropriated for protection of works of art in the state capitol and for other cultural and aesthetic projects.

**Collection Frequency:** Monthly

#### Major Drivers:

- Interest and bond rates on loans and investments
- Balance in the culture trust fund available for investment

#### Potential Factors Influencing Change:

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Coal price
  - Coal production costs
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Coal severance tax and distribution related changes
    - Fund transfers from the cultural trust corpus
  - Federal legislative impacts
    - Influences on national interest and bond rates

**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

#### Contacts:

#### Statutory Reference:

Tax Rate – NA  
Distribution (MCA) – 15-35-108(6), 22-2-305  
Date Due - NA

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

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**% of Total FY 2004 General Fund Revenue:** N/A

**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast Cultural trust interest earnings is a multi-step process. In order to estimate total investment earnings for the trust, income must be calculated on three separate components: 1) cultural trust pool interest; 2) interest on new deposits; and 3) short-term interest earnings.

As of October 1, 1995, all fixed-income investments held by the state’s major trust funds were transferred to a newly-created Trust Fund Bond Pool (TFBP). The first step involves determining the TFBP earnings. For the first year to be estimated, the applicable portion of the TFBP at the end of the previous fiscal year is multiplied by the estimated long-term TFBP interest rate. Subsequent years are estimated by adding the forecast amount of the coal tax allocation for that year multiplied by the long-term interest rate to the last year’s estimate. Investment income on new deposits is calculated by multiplying the forecast amount for quarterly coal severance tax collections by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term TFBP interest rate thereafter. Coal severance tax collections are forecast as part of the coal severance tax methodology.

Investment income on new deposits is calculated by multiplying the forecast amount for quarterly coal severance tax collections by the appropriate interest rate. The invested balance varies in accordance with the timing of when new monies become available. For example, coal severance tax collections due for the first quarter of the biennium will earn interest at the short-term (STIP) rate for one month, after which they will earn interest at the long-term rate for the remainder of the biennium.

Finally, because a portion of the trust is invested on a short-term basis, an assumption is made for the balance of trust funds in STIP. This balance is then multiplied by the short-term interest rate to determine short-term interest income.

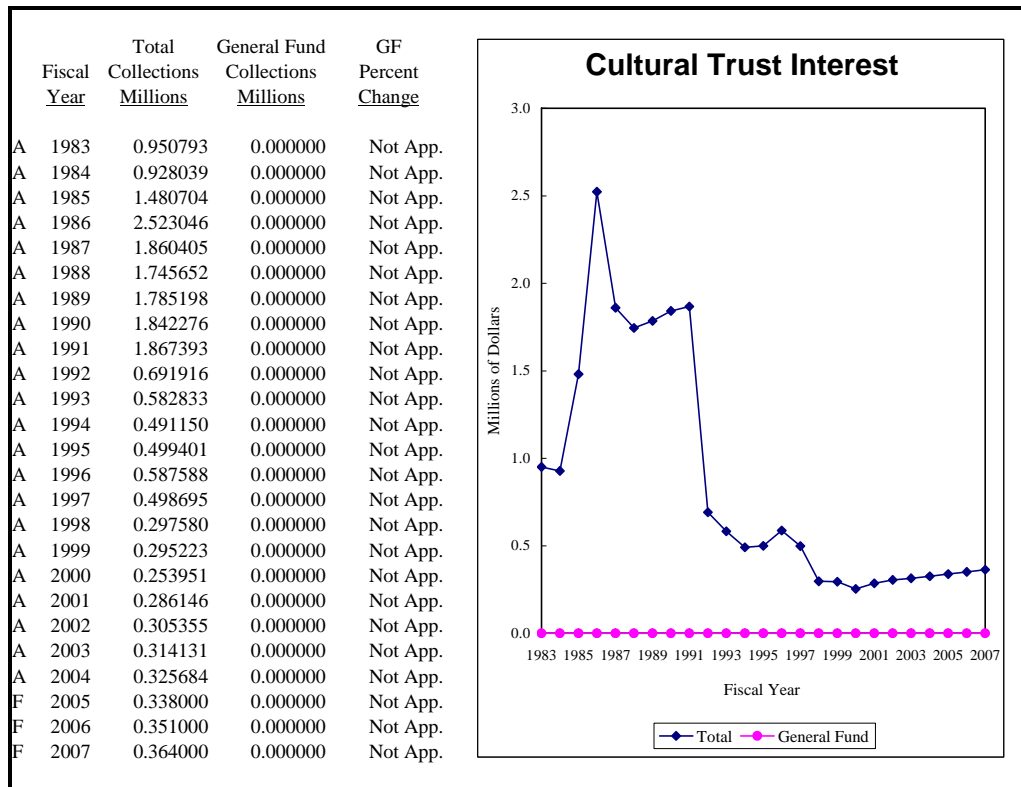
Once investment income has been calculated for these three components, the sum of these comprises total cultural trust investment income.

# Legislative Fiscal Division

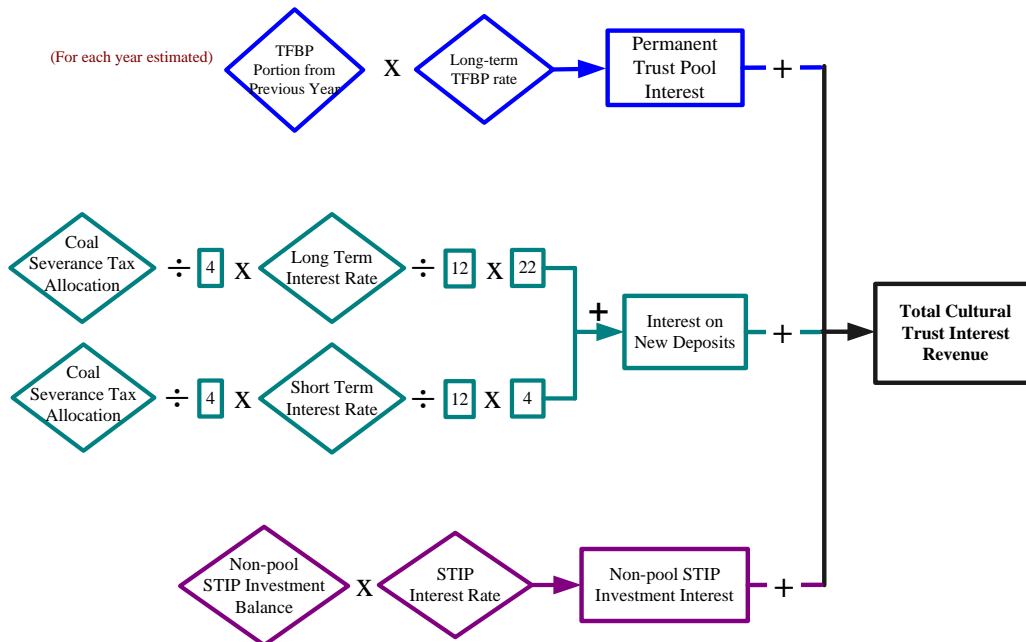
## Revenue Estimate Profile

### Cultural Trust Interest

#### Revenue Projection:



#### Forecast Methodology



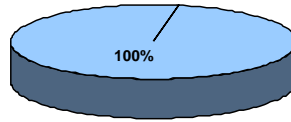
# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

#### Distribution Methodology

State Special Revenue Fund



#### Revenue Estimate Assumptions

|          | t             | Total Rev.      | GF Rev.         | TFBP            | STIP            |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> |
|          |               |                 |                 | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 0.253951        | 0.000000        |                 |                 |
| Actual   | 2001          | 0.286146        | 0.000000        |                 |                 |
| Actual   | 2002          | 0.305355        | 0.000000        | 0.304399        | 0.000955        |
| Actual   | 2003          | 0.314131        | 0.000000        | 0.310495        | 0.003636        |
| Actual   | 2004          | 0.325684        | 0.000000        | 0.324526        | 0.001158        |
| Forecast | 2005          | 0.338000        | 0.000000        | 0.329891        | 0.008404        |
| Forecast | 2006          | 0.351000        | 0.000000        | 0.341371        | 0.009887        |
| Forecast | 2007          | 0.364000        | 0.000000        | 0.353050        | 0.010836        |

|          | t             | Net Coal Tax       | New Deposit      | Non Pool    | Non Pool        |
|----------|---------------|--------------------|------------------|-------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u> | <u>Long Term</u> | <u>STIP</u> | <u>STIP Bal</u> |
|          |               | <u>Millions</u>    | <u>Rate</u>      | <u>Rate</u> | <u>Millions</u> |
| Actual   | 2000          | 0.212426           | 7.0160%          | 5.9500%     | 0.249639        |
| Actual   | 2001          | 0.203724           | 6.8830%          | 6.6400%     | 0.028633        |
| Actual   | 2002          | 0.199168           | 6.3370%          | 3.5945%     | 0.102287        |
| Actual   | 2003          | 0.000000           | 5.7290%          | 2.1032%     | 0.062902        |
| Actual   | 2004          | 0.198731           | 5.3680%          | 1.9674%     | 0.088412        |
| Forecast | 2005          | 0.209000           | 5.4930%          | 2.9685%     | 0.088412        |
| Forecast | 2006          | 0.199000           | 5.8690%          | 4.3184%     | 0.088412        |
| Forecast | 2007          | 0.203000           | 6.1860%          | 4.8225%     | 0.088412        |



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# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

---

**Revenue Description:** Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income. These lands produce revenue through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. Income from certain portions of public school/institution lands has been designated for support of the School for the Deaf and Blind. Thus, some of these funds are deposited into a component of the trust and legacy trust fund referred to as the Deaf and Blind trust, which generates interest earnings for the state. As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created Trust Fund Bond Pool (TFBP). The majority of trust and legacy trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's Short Term Investment Pool (STIP). The state constitution prohibits the investment of any trust funds in common stock.

In accordance with statute, 3.0 percent of Deaf and Blind trust interest and income is diverted to the Department of Natural Resources and Conservation (DNRC) to be used for resource development purposes. Senate Bill 48, passed by the 1999 legislature, provides for the diversion of the following funds for the purpose of funding the Trust Land Management Division in the DNRC: 1) mineral royalties; 2) revenues from the sale of easements; and 3) 5.0 percent of interest and income previously credited to the common school trust. In addition, a portion of timber sale revenue is diverted to fund a portion of DNRC's timber program. The amount of the money diverted from the Deaf and Blind trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest and income from the trust, net of amounts to fund DNRC administration, are allocated to the School for the Deaf and Blind.

**Collection Frequency:** Monthly

#### Major Drivers:

- Interest and bond rates on investments
- Balance in the Deaf and Blind trust fund available for investment
- Revenue received for commodities produced or extracted from trust lands (i.e. grazing and agricultural rents, mineral royalties)
- Diversions of revenue for administration

#### Potential Factors Influencing Change:

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Commodity prices
  - Commodity production
- Social Factors – None
- Legislative Factors
  - State legislative impacts
    - Prices and rental charges set by the Board of Land Commissioners
    - Constitutional restrictions on types of investments (i.e. no investments in equities)
    - Appropriations of revenue for administration
    - Statutory allocation of revenue for administration
    - Diversion of revenue from the Deaf and Blind trust fund (i.e. timber and mineral royalties)
  - Federal legislative impacts
    - Influences on national interest and bond rates

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

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**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight, Department of Natural Resources and Conservation

**Contacts:** Department of Natural Resources and Conservation

**Statutory Reference:**

- Tax Rate – NA
- Distribution (MCA) – 20-8-110
- Other (MCA) – DNRC trust land administration diversion (77-1-109)
  - DNRC timber sale program diversion (77-1-613)
  - DNRC land bank administration diversion (77-2-362)
  - DNRC resource development diversion (77-1-607)
- Enabling Act, Sections 11 & 17

**% of Total FY 2004 General Fund Revenue:** N/A

**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast Deaf and Blind trust interest and income is a multi-step process.

**Interest**

Interest is derived from investment of the Deaf and Blind trust fund, as well as from interest on land sales. In order to calculate total investment earnings for the trust, income must be calculated on three separate components: 1) trust and legacy trust pool interest; 2) interest on new deposits; and 3) short-term interest earnings.

The first step involves determining the trust and legacy pool interest earnings. For the first year to be estimated, the applicable portion of the pool at the end of the previous fiscal year is multiplied by the estimated long-term pool interest rate. Subsequent years are estimated by adding the forecast amount of new deposits (less amounts used to fund the Trust Land Management Division) for that year multiplied by the long-term interest rate to the last year’s estimate. Investment income on new deposits is calculated by multiplying the forecast amount (less amounts used to fund the Trust Land Management Division) by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term pool interest rate thereafter.

Interest on new deposits (less amounts used to fund DNRC’s timber sale program) is calculated by multiplying the forecast amount for trust and legacy income by the appropriate interest rate. The interest rate and invested balance varies in accordance with the timing of when new monies become available. For example, revenues received for the first month of the biennium will earn interest at the short-term (STIP) rate for one month, after which they will earn interest at the long-term rate for the remainder of the biennium. In addition, because a portion of the trust is invested on a short-term basis, an assumption is made for the balance of trust funds in STIP. This balance is then multiplied by the short-term interest rate to determine short-term interest income.

Once interest has been calculated for these three components, the sum of the three is multiplied by the percent of income attributable to the Deaf and Blind trust portion of the trust and legacy trust fund. This number is added to the amount of interest expected from land sales and interest on STIP investments, to comprise total Deaf and Blind trust interest income.

# Legislative Fiscal Division

## Revenue Estimate Profile

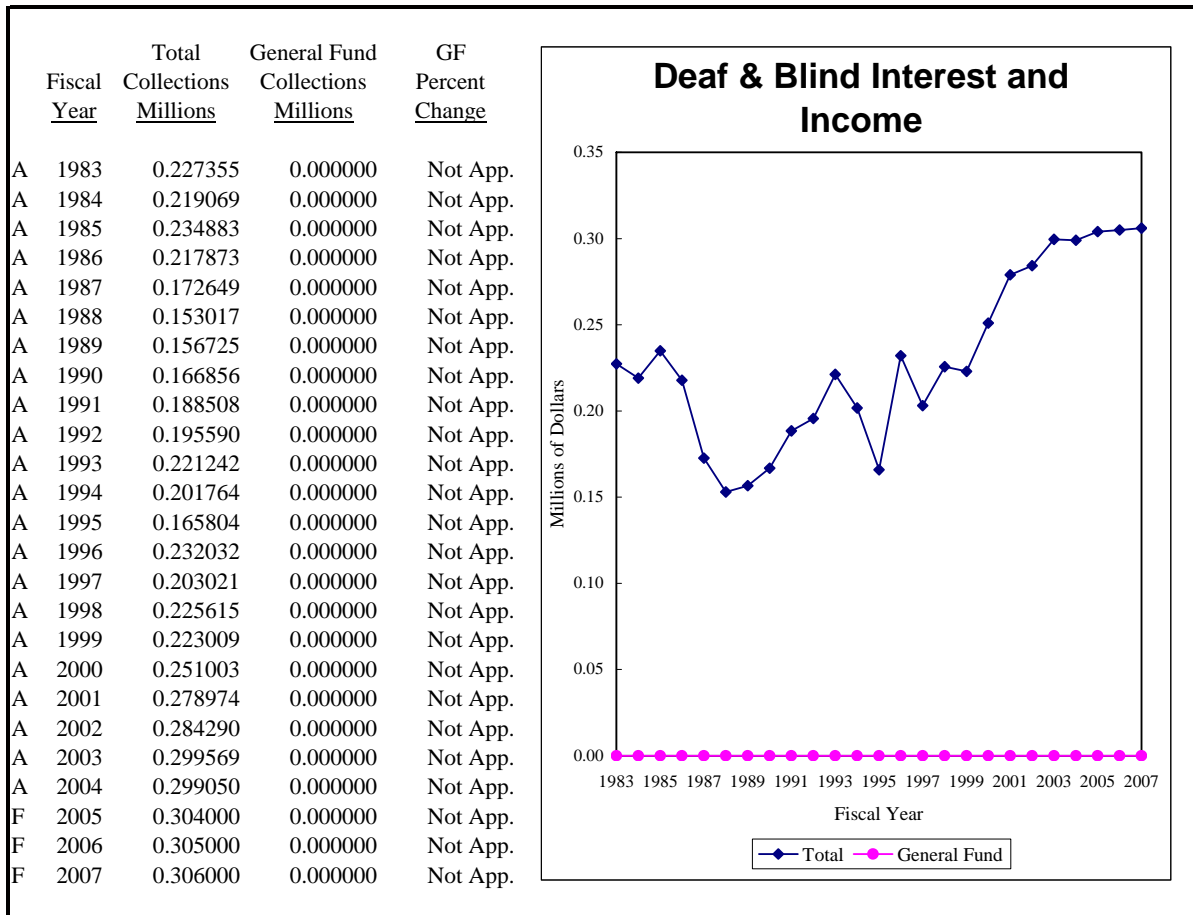
### Deaf and Blind Trust Interest and Income

#### Income

Deaf and Blind trust income is estimated by computing the total of six different types of revenue: grazing fees, agricultural fees, miscellaneous fees, oil and gas leases, oil and gas penalties, and miscellaneous rentals. Once total income is determined, the 3.0 percent diversion to DNRC is calculated.

Total interest and income is calculated by summing total Deaf and Blind trust income and interest less DNRC's resource development and trust land administration diversions. The amount of the money diverted from the Pine Hills trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

#### Revenue Projection:

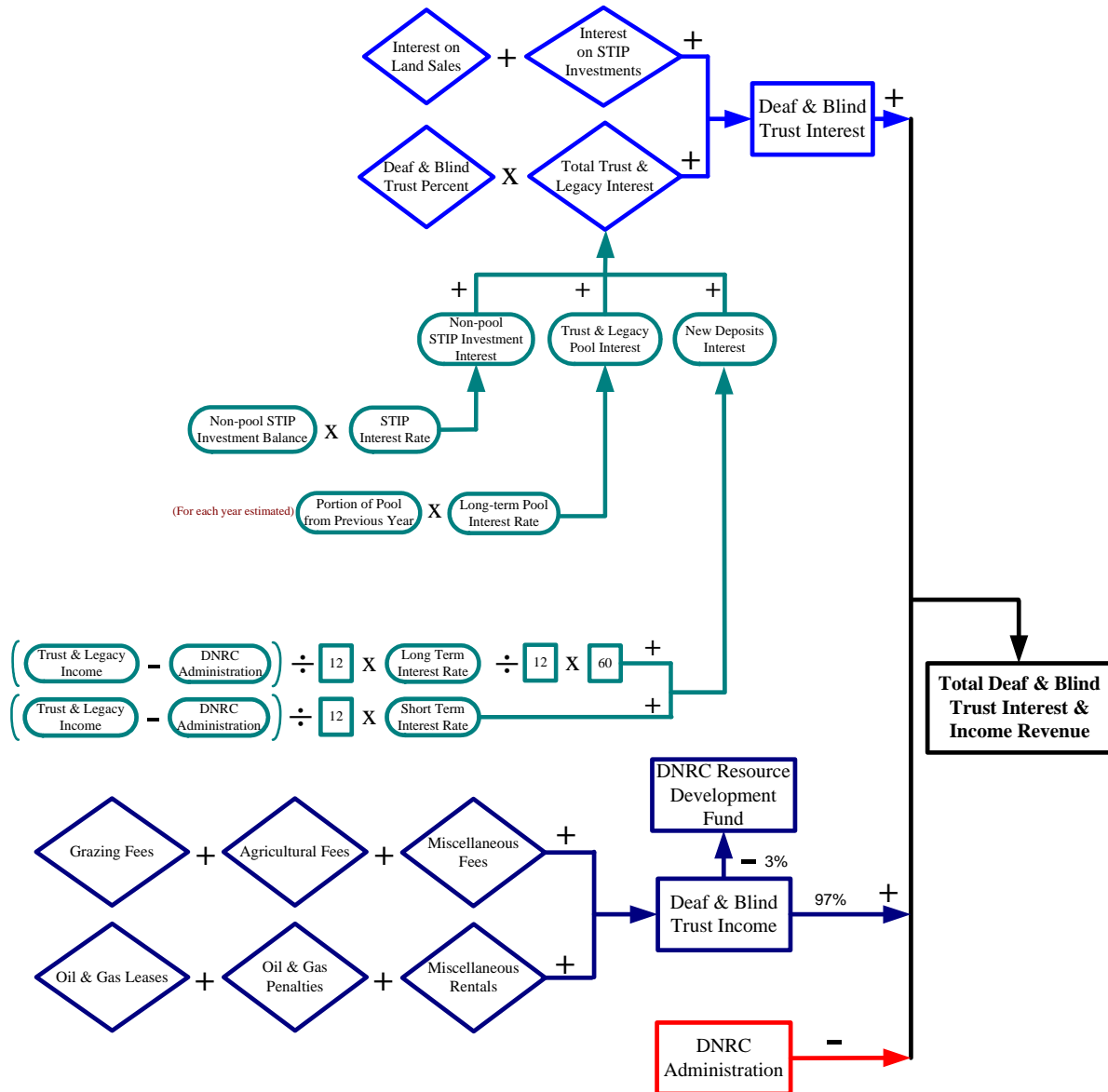


# Legislative Fiscal Division

## Revenue Estimate Profile

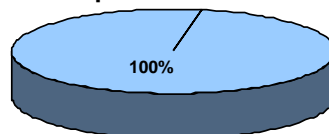
### Deaf and Blind Trust Interest and Income

#### Forecast Methodology



#### Distribution Methodology

##### State Special Revenue Fund



# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

#### Revenue Estimate Assumptions

|          | t             | Total Rev.      | GF Rev.         | TFBP            | STIP            | Deaf &             |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|--------------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> | <u>Blind Share</u> |
|          |               |                 |                 | <u>Millions</u> | <u>Millions</u> | <u>T&amp;L</u>     |
| Actual   | 2000          | 0.251003        | 0.000000        |                 |                 | 0.006369           |
| Actual   | 2001          | 0.278974        | 0.000000        |                 |                 | 0.007485           |
| Actual   | 2002          | 0.284290        | 0.000000        | 29.670198       | 0.102471        | 0.006697           |
| Actual   | 2003          | 0.299569        | 0.000000        | 29.146744       | 0.068370        | 0.006947           |
| Actual   | 2004          | 0.299050        | 0.000000        | 30.087011       | 0.053502        | 0.007029           |
| Forecast | 2005          | 0.304000        | 0.000000        | 30.090667       | 0.293644        | 0.007029           |
| Forecast | 2006          | 0.305000        | 0.000000        | 30.273418       | 0.351193        | 0.007029           |
| Forecast | 2007          | 0.306000        | 0.000000        | 30.371250       | 0.389633        | 0.007029           |

|          | t             | Trust Income       | Trust Land      | New Deposit      | Non Pool    | Non Pool        |
|----------|---------------|--------------------|-----------------|------------------|-------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u> | <u>Admin.</u>   | <u>Long Term</u> | <u>STIP</u> | <u>STIP Bal</u> |
|          |               | <u>Millions</u>    | <u>Millions</u> | <u>Rate</u>      | <u>Rate</u> | <u>Millions</u> |
| Actual   | 2000          | 10.962021          |                 | 7.0160%          | 5.9500%     | 11.676486       |
| Actual   | 2001          | 12.667782          | 0.000000        | 6.8830%          | 6.6400%     | 6.984553        |
| Actual   | 2002          | 2.105811           | 0.000000        | 6.3370%          | 3.5945%     | 7.334239        |
| Actual   | 2003          | 2.345732           | 0.000000        | 5.7290%          | 2.1032%     | 6.242273        |
| Actual   | 2004          | 2.936728           | 0.000000        | 5.3680%          | 1.9674%     | 7.049634        |
| Forecast | 2005          | 3.326972           | 0.000000        | 5.4930%          | 2.9685%     | 7.049634        |
| Forecast | 2006          | 1.666932           | 0.000000        | 5.8690%          | 4.3184%     | 7.049634        |
| Forecast | 2007          | 1.666932           | 0.000000        | 6.1860%          | 4.8225%     | 7.049634        |

|          | t             | Grazing         | Agriculture     | Misc.           | O&G Lease       | O&G Bonus       | O&G Penalty     | Misc.           |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 0.030113        | 0.008628        | 0.000000        | 0.001980        | 0.001280        | 0.000000        | 0.046783        |
| Actual   | 2001          | 0.040496        | 0.020937        | 0.000000        | 0.001440        | 0.000480        | 0.000000        | 0.019365        |
| Actual   | 2002          | 0.040733        | 0.014776        | 0.000000        | 0.001740        | 0.000050        | 0.000000        | 0.027618        |
| Actual   | 2003          | 0.042676        | 0.022940        | 0.000000        | 0.001740        | 0.000000        | 0.000000        | 0.029242        |
| Actual   | 2004          | 0.038658        | 0.016168        | 0.000000        | 0.001740        | 0.000000        | 0.000000        | 0.030636        |
| Forecast | 2005          | 0.040641        | 0.021958        | 0.000000        | 0.001740        | 0.000000        | 0.000000        | 0.029165        |
| Forecast | 2006          | 0.040677        | 0.020866        | 0.000000        | 0.001740        | 0.000000        | 0.000000        | 0.029681        |
| Forecast | 2007          | 0.040663        | 0.020734        | 0.000000        | 0.001740        | 0.000000        | 0.000000        | 0.029827        |

|          | t             | Int. Land       | Int. STIP       | Int. Trust      | Timber          | Res. Dev.       |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 0.000000        | 0.000000        | 0.162218        | 0.000000        | -0.002664       |
| Actual   | 2001          | 0.000000        | 0.000000        | 0.196256        | 0.000000        | -0.002482       |
| Actual   | 2002          | 0.000000        | 0.000000        | 0.199373        | 0.000000        | -0.002548       |
| Actual   | 2003          | 0.000000        | 0.000000        | 0.202971        | 0.000000        | -0.002898       |
| Actual   | 2004          | 0.000000        | 0.000000        | 0.211848        | 0.000000        | -0.002616       |
| Forecast | 2005          | 0.000000        | 0.000000        | 0.213571        | 0.000000        | -0.002805       |
| Forecast | 2006          | 0.000000        | 0.000000        | 0.215260        | 0.000000        | -0.002789       |
| Forecast | 2007          | 0.000000        | 0.000000        | 0.216218        | 0.000000        | -0.002789       |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

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**Revenue Description:** Beginning in fiscal 1976, a portion of coal severance tax revenue was deposited into the Parks Acquisition and Arts Protection trust fund. The 1991 legislature split the principal of this trust into two separate trusts, the Parks Acquisition trust (parks trust) and the Arts Protection trust (cultural trust), with coal severance taxes allocated to each one. Except for fiscal 2003, the amount of 1.27 percent of coal tax revenues is statutorily allocated to the parks trust for the purpose of parks acquisition or management. The August 2002 special legislative session eliminated the allocation for fiscal 2003 only. Income from the parks trust must be appropriated for the acquisition, development, operation, and maintenance of state parks, state recreational areas, state monuments, and state historical sites under control of the Department of Fish, Wildlife and Parks.

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest earnings on the parks trust are allocated to the Department of Fish, Wildlife, and Parks and deposited to a state special revenue fund.

**Collection Frequency:** Monthly

#### Major Drivers:

- Interest and bond rates on loans and investments
- Balance in the culture trust fund available for investment

#### Potential Factors Influencing Change:

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Coal price
  - Coal production costs
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Coal severance tax and distribution related changes
    - Fund transfers from the parks trust corpus
  - Federal legislative impacts
    - Influences on national interest and bond rates

**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

#### Contacts:

#### Statutory Reference:

Tax Rate – NA  
Distribution (MCA) – 15-35-108(4)  
Date Due - NA

**% of Total FY 2004 General Fund Revenue:** N/A

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

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**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast parks trust interest earnings is a multi-step process. In order to estimate total investment earnings for the trust, income must be calculated on three separate components: 1) parks trust pool interest; 2) interest on new deposits; and 3) short-term interest earnings.

As of October 1, 1995, all fixed-income investments held by the state’s major trust funds were transferred to a newly-created Trust Fund Bond Pool (TFBP). The first step involves determining the TFBP earnings. For the first year to be estimated, the applicable portion of the TFBP at the end of the previous fiscal year is multiplied by the estimated long-term TFBP interest rate. Subsequent years are estimated by adding the forecast amount of the coal tax allocation for that year multiplied by the long-term interest rate to the last year’s estimate. Investment income on new deposits is calculated by multiplying the forecast amount for quarterly coal severance tax collections by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term TFBP interest rate thereafter. Coal severance tax collections are forecast as part of the coal severance tax methodology.

Investment income on new deposits is calculated by multiplying the forecast amount for quarterly coal severance tax collections by the appropriate interest rate. The invested balance varies in accordance with the timing of when new monies become available. For example, coal severance tax collections due for the first quarter of the biennium will earn interest at the short-term (STIP) rate for one month, after which they will earn interest at the long-term rate for the remainder of the biennium. (Coal severance tax collections are forecast as part of the coal severance tax methodology.)

Finally, because a portion of the trust is invested on a short-term basis, an assumption is made for the balance of trust funds in STIP. This balance is then multiplied by the short-term interest rate to determine short-term interest income.

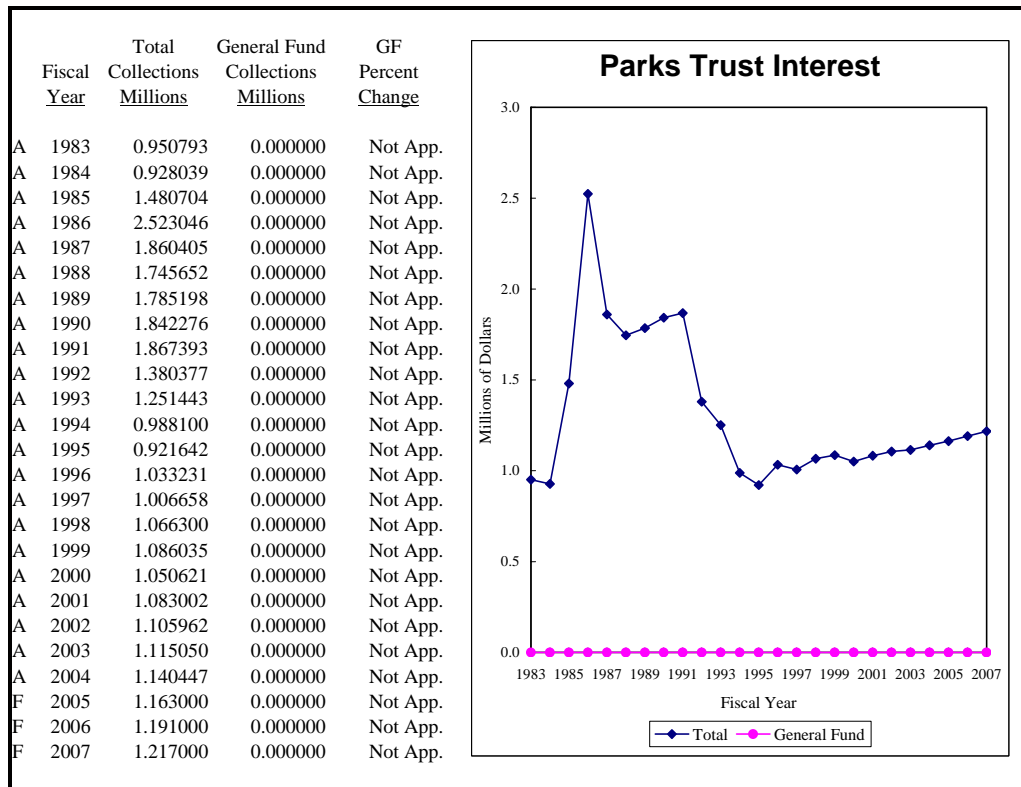
Once investment income has been calculated for these three components, the sum of these comprises total parks trust investment income.

# Legislative Fiscal Division

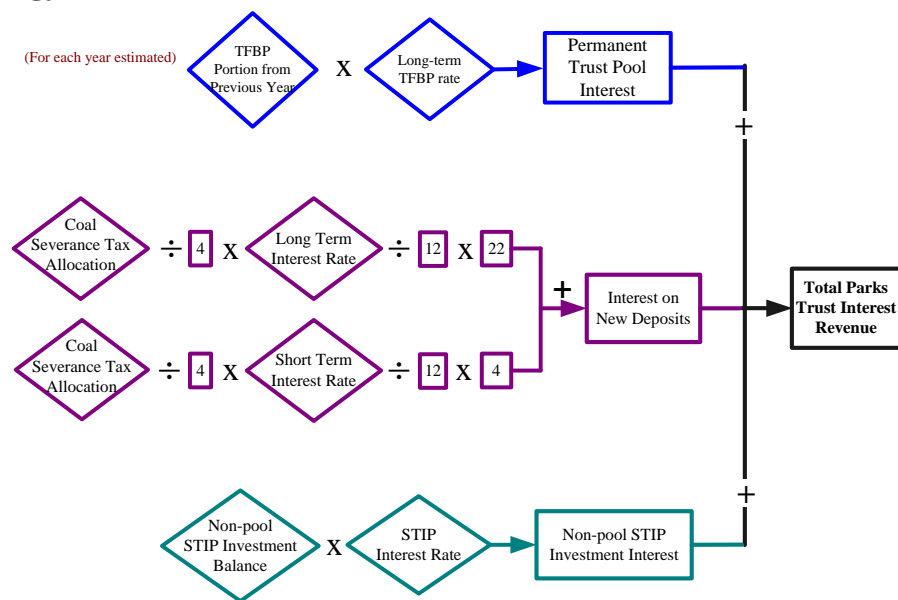
## Revenue Estimate Profile

### Parks Trust Interest

#### Revenue Projection:



#### Forecast Methodology





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# Legislative Fiscal Division

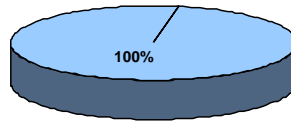
## Revenue Estimate Profile

### Parks Trust Interest

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#### Distribution Methodology

State Special Revenue Fund



#### Revenue Estimate Assumptions

|          | <u>t</u>      | <u>Total Rev.</u> | <u>GF Rev.</u>  | <u>TFBP</u>     | <u>STIP</u>     |
|----------|---------------|-------------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u>   | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> |
|          |               |                   |                 | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 1.050621          | 0.000000        |                 |                 |
| Actual   | 2001          | 1.083002          | 0.000000        |                 |                 |
| Actual   | 2002          | 1.105962          | 0.000000        | 1.100428        | 0.005534        |
| Actual   | 2003          | 1.115050          | 0.000000        | 1.101342        | 0.013709        |
| Actual   | 2004          | 1.140447          | 0.000000        | 1.138429        | 0.002019        |
| Forecast | 2005          | 1.163000          | 0.000000        | 1.142022        | 0.021406        |
| Forecast | 2006          | 1.191000          | 0.000000        | 1.165202        | 0.026396        |
| Forecast | 2007          | 1.217000          | 0.000000        | 1.188737        | 0.029092        |

|          | <u>t</u>      | <u>Net Coal Tax</u> | <u>New Deposit</u> | <u>Non Pool</u> | <u>Non Pool</u> |
|----------|---------------|---------------------|--------------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u>  | <u>Long Term</u>   | <u>STIP</u>     | <u>STIP Bal</u> |
|          |               | <u>Millions</u>     | <u>Rate</u>        | <u>Rate</u>     | <u>Millions</u> |
| Actual   | 2000          | 0.450466            | 6.3370%            | 5.9500%         | 0.301775        |
| Actual   | 2001          | 0.410682            | 6.8830%            | 6.6400%         | 0.177151        |
| Actual   | 2002          | 0.401498            | 6.3370%            | 3.5945%         | 0.140270        |
| Actual   | 2003          | 0.000000            | 5.7290%            | 2.1032%         | 0.328045        |
| Actual   | 2004          | 0.400617            | 5.3680%            | 1.9674%         | 0.328045        |
| Forecast | 2005          | 0.422000            | 5.4930%            | 2.9685%         | 0.328045        |
| Forecast | 2006          | 0.401000            | 5.8690%            | 4.3184%         | 0.328045        |
| Forecast | 2007          | 0.410000            | 6.1860%            | 4.8225%         | 0.328045        |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

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**Revenue Description:** Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income. These lands produce revenue through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. Income from certain portions of public school/institution lands has been designated for the support of the Pine Hills youth correctional facility. Thus, some of these funds are deposited into a component of the trust and legacy trust fund referred to as the Pine Hills trust, which generates interest earnings for the state. As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created Trust Fund Bond Pool (TFBP). The majority of trust and legacy trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's Short Term Investment Pool (STIP). The state constitution prohibits the investment of any trust funds in common stock.

In accordance with statute, 3.0 percent of Pine Hills interest and income is diverted to the Department of Natural Resources and Conservation (DNRC) to be used for resource development purposes. Senate Bill 48, passed by the 1999 legislature, provides for the diversion of the following funds for the purpose of funding the Trust Land Management Division in the DNRC: 1) mineral royalties; 2) revenues from the sale of easements; and 3) 5.0 percent of interest and income previously credited to the common school trust. In addition, a portion of timber sale revenue is diverted to fund a portion of DNRC's timber program. The amount of the money diverted from the Pine Hills trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest and income from the trust, net of amounts to fund DNRC administration, is allocated to the Department of Corrections for support of the Pine Hills youth correctional facility.

**Collection Frequency:** Monthly

#### Major Drivers:

- Interest and bond rates on investments
- Balance in the Deaf and Blind trust fund available for investment
- Revenue received for commodities produced or extracted from trust lands (i.e. grazing and agricultural rents, mineral royalties)
- Diversions of revenue for administration

#### Potential Factors Influencing Change:

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Commodity prices
  - Commodity production
- Social Factors – None
- Legislative Factors
  - State legislative impacts
    - Prices and rental charges set by the Board of Land Commissioners
    - Constitutional restrictions on types of investments (i.e. no investments in equities)
    - Appropriations of revenue for administration
    - Statutory allocation of revenue for administration
    - Diversion of revenue from the Pine Hills trust fund (i.e. timber and mineral royalties)
  - Federal legislative impacts
    - Influences on national interest and bond rates

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

---

**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight, Department of Natural Resources and Conservation

**Contacts:** Department of Natural Resources and Conservation

**Statute:**

- Tax Rate – NA
- Distribution (MCA) – 17-3-1003
- Other (MCA) – DNRC trust land administration diversion (77-1-109)
  - DNRC timber sale program diversion (77-1-613)
  - DNRC land bank administration diversion (77-2-362)
  - DNRC resource development diversion (77-1-607)
- Enabling Act, Sections 11 & 17

**% of Total FY 2004 General Fund Revenue:** N/A

**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable methodology (formulas) and assumptions used by the LFD to develop a revenue estimate for this source are provided in the appendix of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast Pine Hills interest and income is a multi-step process.

**Interest**

Interest is derived from investment of the Pine Hills trust fund, as well as from interest on land sales. In order to calculate total investment earnings for the trust, income must be calculated on three separate components: 1) trust and legacy trust pool interest; 2) interest on new deposits; and 3) short term interest earnings.

The first step involves determining the trust and legacy pool interest earnings. For the first year to be estimated, the applicable portion of the pool at the end of the previous fiscal year is multiplied by the estimated long-term pool interest rate. Subsequent years are estimated by adding the forecast amount of new deposits (less amounts used to fund the Trust Land Management Division) for that year multiplied by the long-term interest rate to the last year's estimate. Investment income on new deposits is calculated by multiplying the forecast amount (less amounts used to fund the Trust Land Management Division) by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term pool interest rate thereafter.

Interest on new deposits (less amounts used to fund DNRC's timber sale program) is calculated by multiplying the forecast amount for trust and legacy income by the appropriate interest rate. The interest rate and invested balance varies in accordance with the timing of when new monies become available. For example, revenues received for the first month of the biennium will earn interest at the short-term (STIP) rate for one month, after which they will earn interest at the long-term rate for the remainder of the biennium. In addition, because a portion of the trust is invested on a short-term basis, an assumption is made for the balance of trust funds in STIP. This balance is then multiplied by the short-term interest rate to determine short-term interest income.

Once interest has been calculated for these three components, the sum of the three is multiplied by the percent of income attributable to the Pine Hills trust portion of the trust and legacy trust fund. This number is added to the amount of interest expected from land sales and interest on STIP investments, to comprise total Pine Hills trust interest income.

# Legislative Fiscal Division

## Revenue Estimate Profile

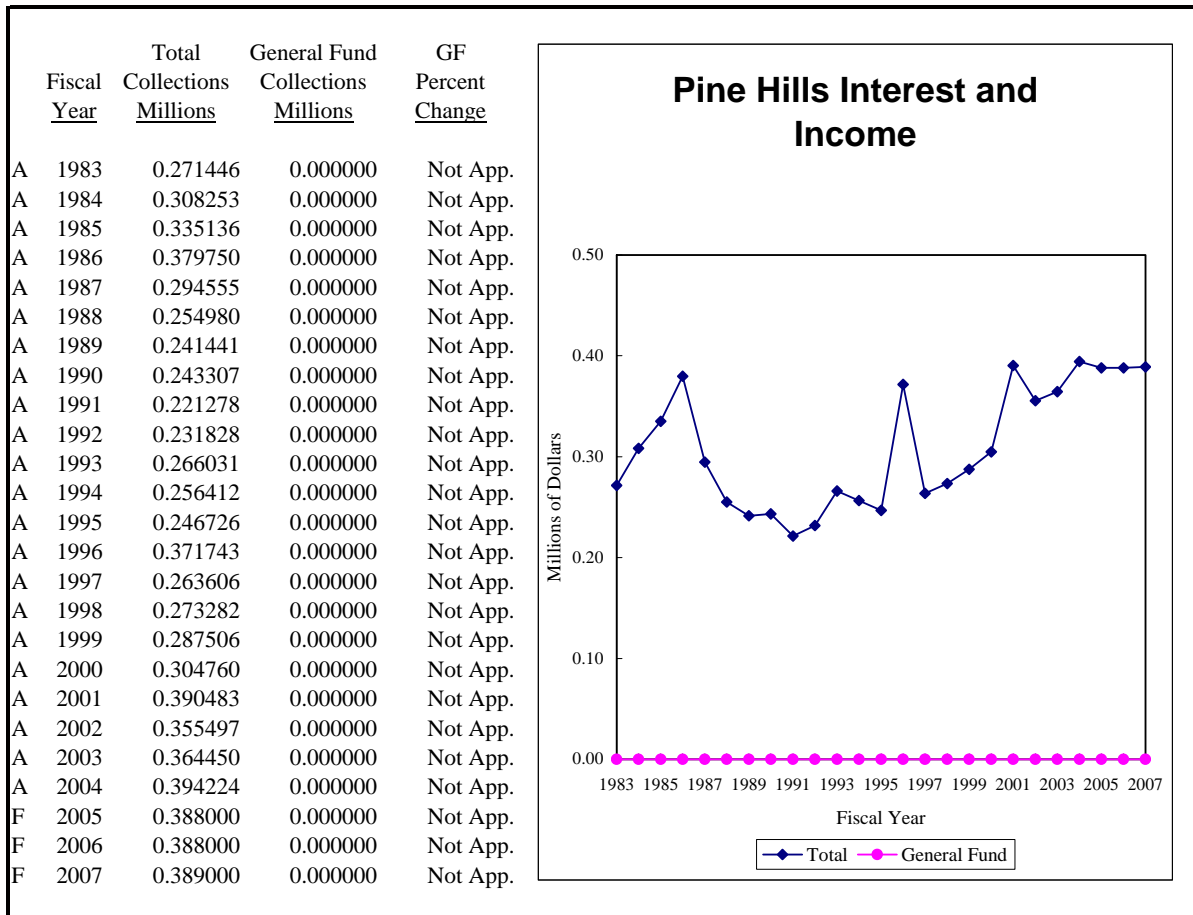
### Pine Hills Interest and Income

#### Income

Pine Hills trust income is estimated by computing the total of six different types of revenue: grazing fees, agricultural fees, miscellaneous fees, oil and gas leases, oil and gas penalties, and miscellaneous rentals. Once total income is determined, the 3.0 percent allocation to DNRC is calculated.

Total interest and income is calculated by summing total Pine Hills trust income and interest less DNRC's resource development and trust land administration diversions.

#### Revenue Projection:

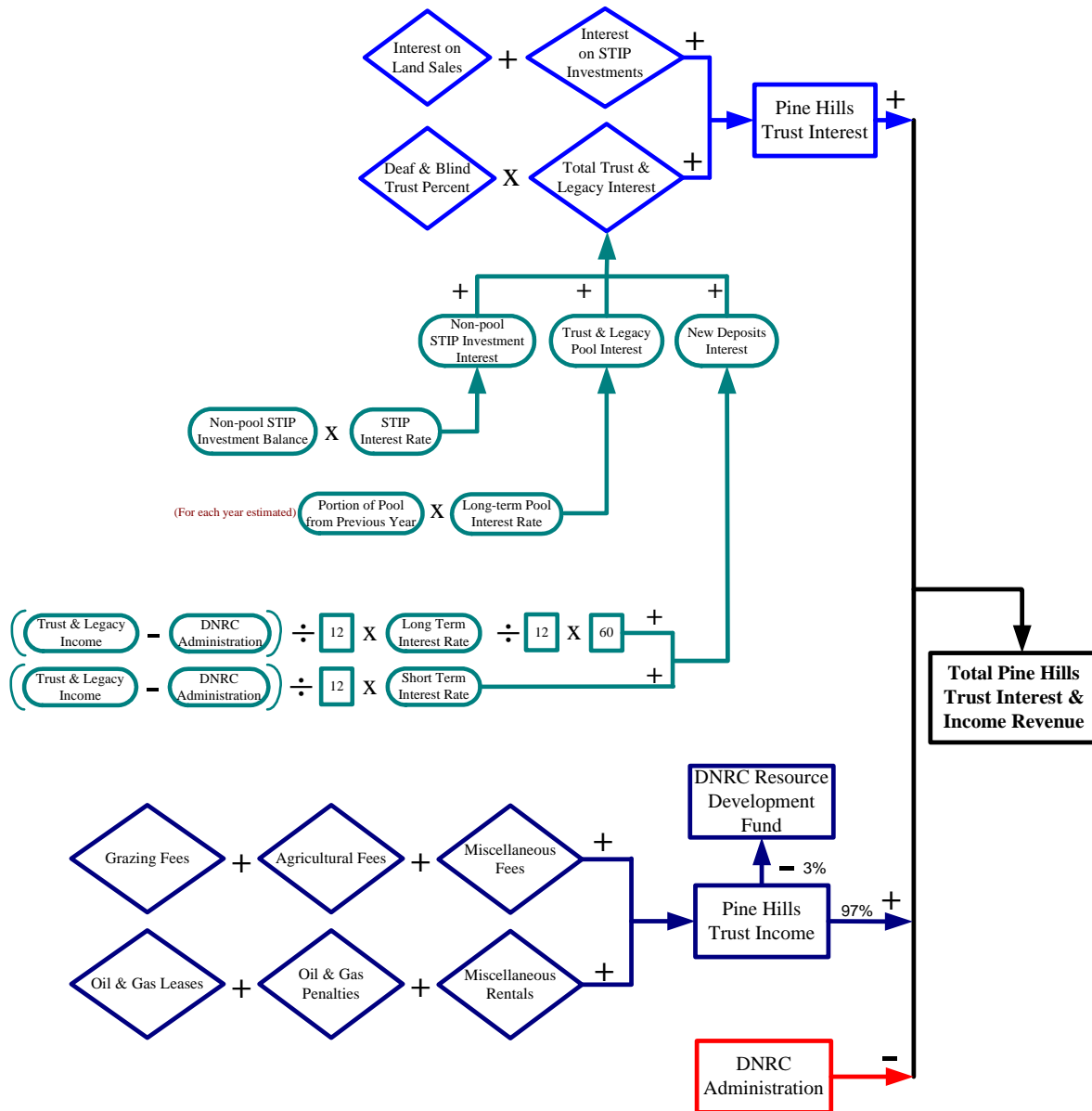


# Legislative Fiscal Division

## Revenue Estimate Profile

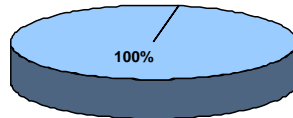
### Pine Hills Interest and Income

#### Forecast Methodology



#### Distribution Methodology

##### State Special Revenue Fund



# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

#### Revenue Estimate Assumptions

|          | t             | Total Rev.      | GF Rev.         | TFBP            | STIP            | Pine               |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|--------------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> | <u>Hills Share</u> |
|          |               |                 |                 | <u>Millions</u> | <u>Millions</u> | <u>T&amp;L</u>     |
| Actual   | 2000          | 0.304760        | 0.000000        |                 |                 | 0.006048           |
| Actual   | 2001          | 0.390483        | 0.000000        |                 |                 | 0.006167           |
| Actual   | 2002          | 0.355497        | 0.000000        | 29.670198       | 0.102471        | 0.005835           |
| Actual   | 2003          | 0.364450        | 0.000000        | 29.146744       | 0.068370        | 0.006580           |
| Actual   | 2004          | 0.394224        | 0.000000        | 30.087011       | 0.053502        | 0.007114           |
| Forecast | 2005          | 0.388000        | 0.000000        | 30.090667       | 0.293644        | 0.007114           |
| Forecast | 2006          | 0.388000        | 0.000000        | 30.273418       | 0.351193        | 0.007114           |
| Forecast | 2007          | 0.389000        | 0.000000        | 30.371250       | 0.389633        | 0.007114           |

|          | t             | Trust Income       | Trust Land      | New Deposit      | Non Pool    | Non Pool        |
|----------|---------------|--------------------|-----------------|------------------|-------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u> | <u>Admin.</u>   | <u>Long Term</u> | <u>STIP</u> | <u>STIP Bal</u> |
|          |               | <u>Millions</u>    | <u>Millions</u> | <u>Rate</u>      | <u>Rate</u> | <u>Millions</u> |
| Actual   | 2000          | 10.962021          |                 | 7.0160%          | 5.9500%     | 11.676486       |
| Actual   | 2001          | 12.667782          | 0.000000        | 6.8830%          | 6.6400%     | 6.984553        |
| Actual   | 2002          | 2.105811           | 0.000000        | 6.3370%          | 3.5945%     | 7.334239        |
| Actual   | 2003          | 2.345732           | 0.000000        | 5.7290%          | 2.1032%     | 6.242273        |
| Actual   | 2004          | 2.936728           | 0.000000        | 5.3680%          | 1.9674%     | 7.049634        |
| Forecast | 2005          | 3.326972           | 0.000000        | 5.4930%          | 2.9685%     | 7.049634        |
| Forecast | 2006          | 1.666932           | 0.000000        | 5.8690%          | 4.3184%     | 7.049634        |
| Forecast | 2007          | 1.666932           | 0.000000        | 6.1860%          | 4.8225%     | 7.049634        |

|          | t             | Grazing         | Agriculture     | Misc.           | O&G Lease       | O&G Bonus       | O&G Penalty     | Misc.           |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 0.054682        | 0.022855        | 0.047965        | 0.021231        | 0.000000        | 0.003895        | 0.000000        |
| Actual   | 2001          | 0.063912        | 0.013002        | 0.056236        | 0.023526        | 0.066599        | 0.005510        | 0.000000        |
| Actual   | 2002          | 0.077707        | 0.016967        | 0.058062        | 0.021550        | 0.000000        | 0.007482        | 0.000000        |
| Actual   | 2003          | 0.070606        | 0.019163        | 0.059332        | 0.020743        | 0.000000        | 0.002359        | 0.000000        |
| Actual   | 2004          | 0.071968        | 0.022278        | 0.059705        | 0.023583        | 0.000000        | 0.002283        | 0.000000        |
| Forecast | 2005          | 0.073427        | 0.020753        | 0.059033        | 0.022102        | 0.000000        | 0.002321        | 0.000000        |
| Forecast | 2006          | 0.072000        | 0.020116        | 0.059357        | 0.022393        | 0.000000        | 0.002302        | 0.000000        |
| Forecast | 2007          | 0.072465        | 0.020194        | 0.059365        | 0.022015        | 0.000000        | 0.002312        | 0.000000        |

|          | t             | Int. Land       | Int. STIP       | Int. Trust      | Timber          | Res. Dev.       |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 0.000000        | 0.000086        | 0.154047        | 0.000000        | -0.004521       |
| Actual   | 2001          | 0.000000        | 0.000000        | 0.161698        | 0.000000        | -0.006864       |
| Actual   | 2002          | 0.000000        | 0.000000        | 0.173729        | 0.000000        | -0.005450       |
| Actual   | 2003          | 0.000000        | 0.000000        | 0.192247        | 0.000000        | -0.005166       |
| Actual   | 2004          | 0.000000        | 0.000000        | 0.214407        | 0.000000        | -0.005395       |
| Forecast | 2005          | 0.000000        | 0.000000        | 0.216154        | 0.000000        | -0.005329       |
| Forecast | 2006          | 0.000000        | 0.000000        | 0.217863        | 0.000000        | -0.005285       |
| Forecast | 2007          | 0.000000        | 0.000000        | 0.218833        | 0.000000        | -0.005291       |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

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**Revenue Description:** The 1999 legislature (Senate Bill 220) created the Treasure State Endowment (TSE) Regional Water System Fund within the permanent coal tax trust fund. The fund receives 25 percent of total coal severance tax collections through June 2016. Interest earned on the fund is used to provide matching funds to plan and construct regional drinking water systems in Montana and fund state and local entity administrative expenses. Except for administrative expenses, each state dollar must be matched equally by local funds. The funds in the account are further restricted to finance regional drinking water systems from the waters of the Tiber reservoir and the Missouri River within specific geographic areas. The program terminates the end of June 2016.

**Applicable Tax Rate(s):** NA

**Distribution:** Interest earnings are deposited to a state special revenue fund and appropriated to the Department of Natural Resources and Conservation to fund eligible projects and pay administrative expenses.

**Collection Frequency:** Monthly

#### Major Drivers:

- Interest and bond rates on loans and investments
- Balance in the coal severance tax sub-fund available for investment
- Water bond subsidy

#### Potential Factors Influencing Change:

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Coal price
  - Coal production costs
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Coal severance tax and distribution related changes
    - Constitutional restrictions on types of investments (i.e. no investments in equities)
    - Appropriations from the trust sub-fund
  - Federal legislative impacts
    - Influences on national interest and bond rates

**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

#### Contacts:

#### Statutory Reference:

Tax Rate – NA  
Distribution (MCA) – 17-5-703 (4b); use of earnings (90-6-715)  
Date Due (MCA) – monthly (17-5-703(4d))

**% of Total FY 2004 General Fund Revenue:** N/A

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

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**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast the regional water trust interest earnings is a multi-step process. In order to estimate total investment earnings for the trust, income must be calculated on three separate components: 1) regional water trust pool interest; 2) interest on new deposits; and 3) interest earned on other non-pool balances.

As of October 1, 1995, all fixed-income investments held by the state’s major trust funds were transferred to a newly-created Trust Fund Bond Pool (TFBP). The first step involves determining the permanent trust TFBP earnings. For the first year to be estimated, the applicable portion of the TFBP at the end of the previous fiscal year is multiplied by the estimated long-term TFBP interest rate. Subsequent years are estimated by adding the forecast amount of the coal tax allocation for that year (less the applicable percentage of the water bond subsidy) multiplied by the long-term interest rate to the last year’s estimate. Investment income on new deposits is calculated by multiplying the forecast amount for quarterly coal severance tax collections (less a portion of the water bond subsidy) by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term TFBP interest rate thereafter. Coal severance tax collections are forecast as part of the coal severance tax methodology.

Investment income on new deposits is calculated by multiplying the forecast amount for quarterly coal severance tax collections (less a portion of the water bond subsidy) by the appropriate interest rate. The invested balance used varies in accordance with the timing of when new monies become available. For example, coal severance tax collections due for the first quarter of the biennium will earn interest at the short-term (STIP) rate for one month, after which they will earn interest at the long-term rate for the remainder of the biennium. (Coal severance tax collections are forecast as part of the coal severance tax methodology.)

Finally, because a portion of the trust is invested on a short-term basis, an assumption is made for the balance of trust funds in STIP. This balance is then multiplied by the short-term interest rate to determine short-term interest income.

Once investment income has been calculated for these three components, the sum of these comprises total TSE Regional Water System investment income.

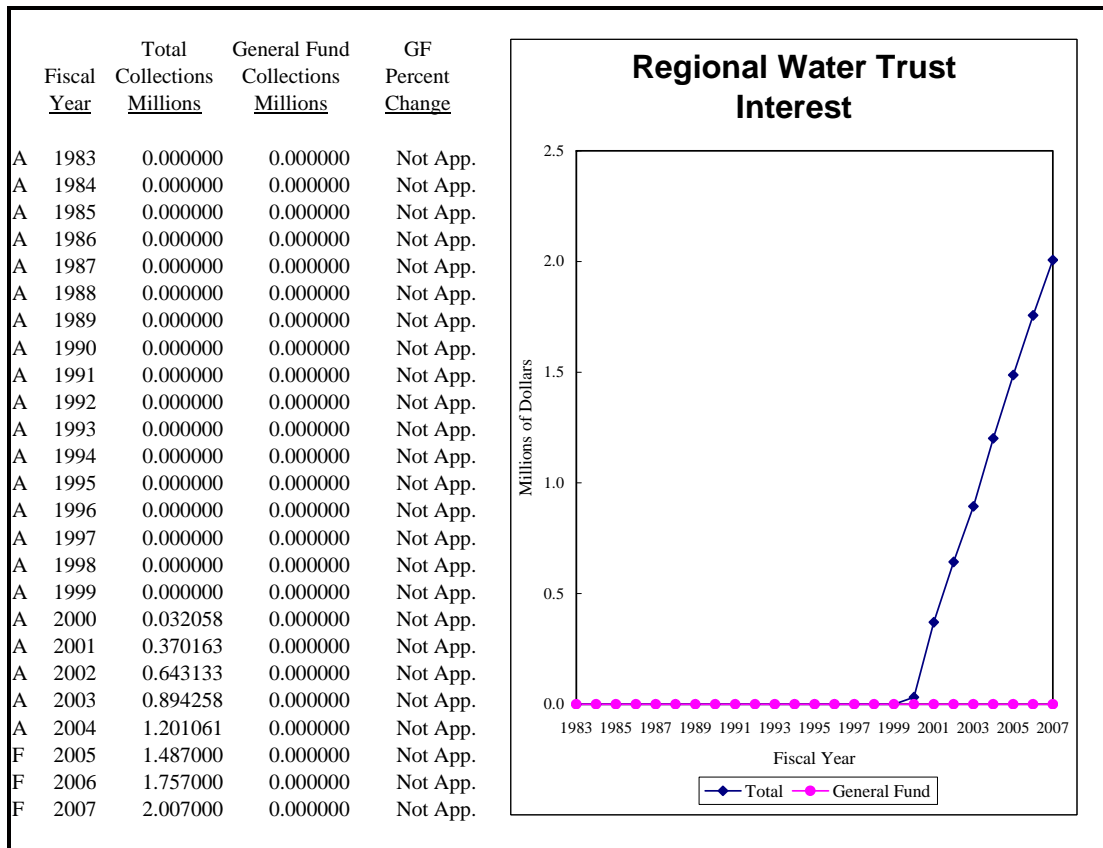


# Legislative Fiscal Division

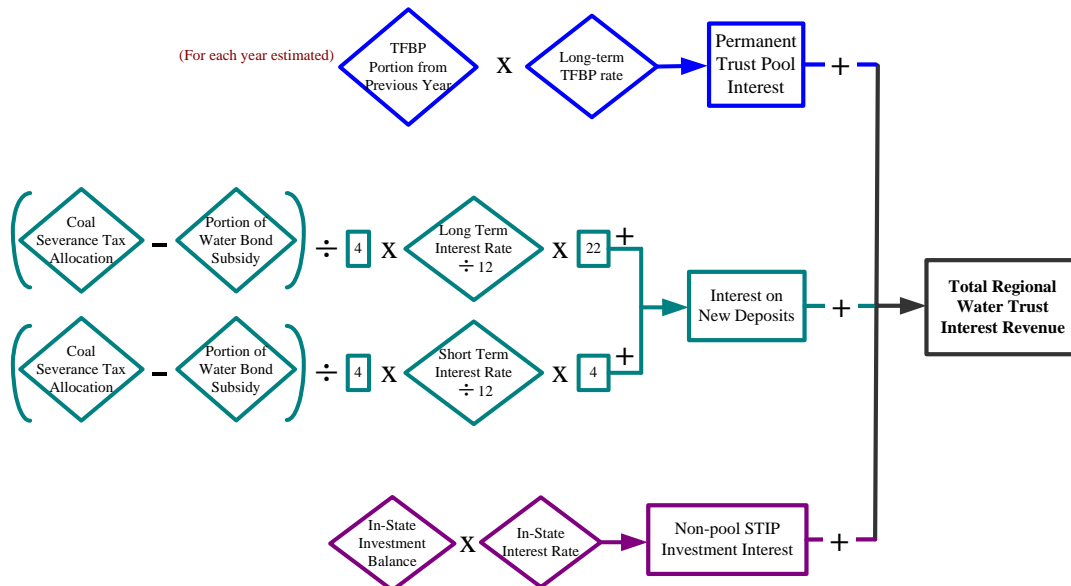
## Revenue Estimate Profile

### Regional Water Trust Interest

#### Revenue Projection:



#### Forecast Methodology



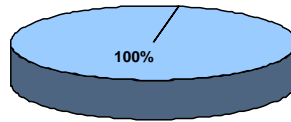
# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

#### Distribution Methodology

State Special Revenue Fund



#### Revenue Estimate Assumptions

|          | <u>t</u>      | <u>Total Rev.</u> | <u>GF Rev.</u>  | <u>TFBP</u>     | <u>STIP</u>     | <u>Loan</u>     |
|----------|---------------|-------------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u>   | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> | <u>Interest</u> |
|          |               |                   |                 | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 0.032058          | 0.000000        |                 |                 |                 |
| Actual   | 2001          | 0.370163          | 0.000000        |                 |                 |                 |
| Actual   | 2002          | 0.643133          | 0.000000        | 0.610589        | 0.032544        | 0.000000        |
| Actual   | 2003          | 0.894258          | 0.000000        | 0.864661        | 0.029598        | 0.000000        |
| Actual   | 2004          | 1.201061          | 0.000000        | 1.173660        | 0.027401        | 0.000000        |
| Forecast | 2005          | 1.487000          | 0.000000        | 1.291683        | 0.194828        | 0.000000        |
| Forecast | 2006          | 1.757000          | 0.000000        | 1.519862        | 0.236804        | 0.000000        |
| Forecast | 2007          | 2.007000          | 0.000000        | 1.751688        | 0.254901        | 0.000000        |

|          | <u>t</u>      | <u>Net Coal Tax</u> | <u>New Deposit</u> | <u>Non Pool</u> | <u>Non Pool</u> |
|----------|---------------|---------------------|--------------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u>  | <u>Long Term</u>   | <u>STIP</u>     | <u>STIP Bal</u> |
|          |               | <u>Millions</u>     | <u>Rate</u>        | <u>Rate</u>     | <u>Millions</u> |
| Actual   | 2000          | 4.433724            | 6.3370%            | 5.9500%         | 3.441977        |
| Actual   | 2001          | 4.042147            | 6.8830%            | 6.6400%         | 0.845223        |
| Actual   | 2002          | 3.951756            | 6.3370%            | 3.5945%         | 1.578601        |
| Actual   | 2003          | 3.677943            | 5.7290%            | 2.1032%         | 1.894047        |
| Actual   | 2004          | 3.943085            | 5.3680%            | 1.9674%         | 2.693965        |
| Forecast | 2005          | 4.154000            | 5.4930%            | 2.9685%         | 2.693965        |
| Forecast | 2006          | 3.950000            | 5.8690%            | 4.3184%         | 2.693965        |
| Forecast | 2007          | 3.861000            | 6.1860%            | 4.8225%         | 2.693965        |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

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**Revenue Description:** Article IX, Section 2 of the Montana Constitution and Title 15, Chapter 38, MCA, require that certain resource extraction taxes, as determined by the legislature, be placed in a trust. The principal of the Resource Indemnity Trust (RIT) "shall forever remain inviolate in an amount of one hundred million dollars (\$100,000,000), guaranteed by the state against loss or diversion." Once the principal of the trust reaches \$100.0 million, any additional tax deposits may be appropriated. Interest earnings on the RIT are to be spent to improve the total environment and rectify damage to the environment. It is also the legislature's intent that interest earnings not be appropriated for general operating expenses of state agencies.

Prior to July 1, 2002 when the Governor by executive order certified to the Secretary of State that the RIT balance had reached \$100 million, the RIT had received revenue from the resource indemnity and ground water assessment tax and the oil and gas tax. Because these allocations of revenue are no longer deposited to the trust, the trust balance will remain constant and interest earnings will be dependent only on the interest rates. However, any excess revenue in the ground water assessment account at the end of a fiscal year causes an amount equal to excess to be deposited to the RIT from the account's allocation of RIGWA tax or RIT interest earnings.

**Applicable Tax Rate(s):** N/A

**Distribution:** Statute allocates RIT interest earnings in the following manner:

- 1) at the beginning of the biennium, an amount not to exceed \$175,000 to the environmental contingency fund to bring the balance up to \$750,000. Money in this account is statutorily appropriated for unanticipated public needs arising from certain disasters and emergencies, which may be used upon authorization of the Governor;
- 2) at the beginning of the biennium, an amount not to exceed \$50,000 to the oil and gas mitigation account to bring the balance up to \$200,000. Money in this account is statutorily appropriated to the Board of Oil and Gas Conservation for the cost of plugging wells that have been abandoned and for which no responsible party can be found;
- 3) at the beginning of the biennium, \$500,000 to the water storage state special revenue account to provide loans and grants for water storage projects;
- 4) \$2.0 million annually to the renewable resource grant and loan program state special revenue account for distribution as grants;
- 5) \$1.2 million annually through fiscal 2005 to the reclamation and development grant state special revenue account for distribution as grants, \$1.5 million annually after fiscal 2005;
- 6) \$350,000 annually through fiscal 2005 to the future fisheries program for bull trout and cutthroat trout recovery, \$500,000 annually after fiscal 2005;
- 7) \$300,000 annually to the ground water assessment account to improve ground water management and protection;
- 8) \$240,000 annually to MSU Northern for the environmental science water quality instructional programs. This amount is statutorily appropriated; and
- 9) of the remaining RIT interest earnings: a) through fiscal 2005, 25.5 percent (30 percent after fiscal 2005) goes to the renewable resource grant and loan account for program and administrative costs; b) through fiscal 2005, 45.0 percent (35 percent after fiscal 2004) goes to the reclamation and development grant account for program and administrative costs; c) 22.0 percent through fiscal 2005 (26 percent after fiscal 2005) goes to the hazardous waste/CERCLA account for superfund activities; and d) 7.5 percent through fiscal 2005 (9.0 percent after fiscal 2005) goes to the environmental quality protection fund for additional clean-up activities.

The Department of Natural Resources and Conservation administers two of the RIT interest accounts which are used for grants, loans, and administrative costs: the renewable resource grant and loan program account and the reclamation and development grant account. These accounts also receive funding from other sources. All grants and loans made from these accounts require legislative approval. Grants must also be appropriated.

**Collection Frequency:** Monthly

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

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#### Major Drivers:

- Interest and bond rates on investments
- Balance in the trust fund

#### Potential Factors Influencing Change:

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Tax and distribution changes
    - New deposits to the trust from the groundwater account
  - Federal legislative impacts - None

**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

#### Contacts:

#### Statutory Reference:

Tax Rate – NA

Distribution (MCA) – Montana Constitution, Article IX, Section 2; 15-38-202(2), use of earnings (15-38-203)

Date Due – NA

**% of Total FY 2004 General Fund Revenue:** N/A

**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast RIT interest earnings is a multi-step process. In order to estimate total investment earnings for the trust, income must be calculated on three separate components: 1) RIT pool interest; 2) interest on new deposits; and 3) short-term interest earnings.

As of October 1, 1995, all fixed-income investments held by the state’s major trust funds were transferred to a newly-created Trust Fund Bond Pool (TFBP). The first step involves determining the permanent trust TFBP earnings. For the first year to be estimated, the applicable portion of the TFBP at the end of the previous fiscal year is multiplied by the estimated long-term TFBP interest rate. Subsequent years are estimated by adding any new deposits (if any) multiplied by the long-term interest rate to the last year’s estimate. Investment income on any new deposits is calculated by multiplying the forecast amount by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term TFBP interest rate thereafter.

Investment income on new deposits is calculated by multiplying the forecast amount (if any) for the RIGWA tax and oil and gas tax collections or transfers from the groundwater account, by the appropriate interest rate. The invested balance varies in accordance with

# Legislative Fiscal Division

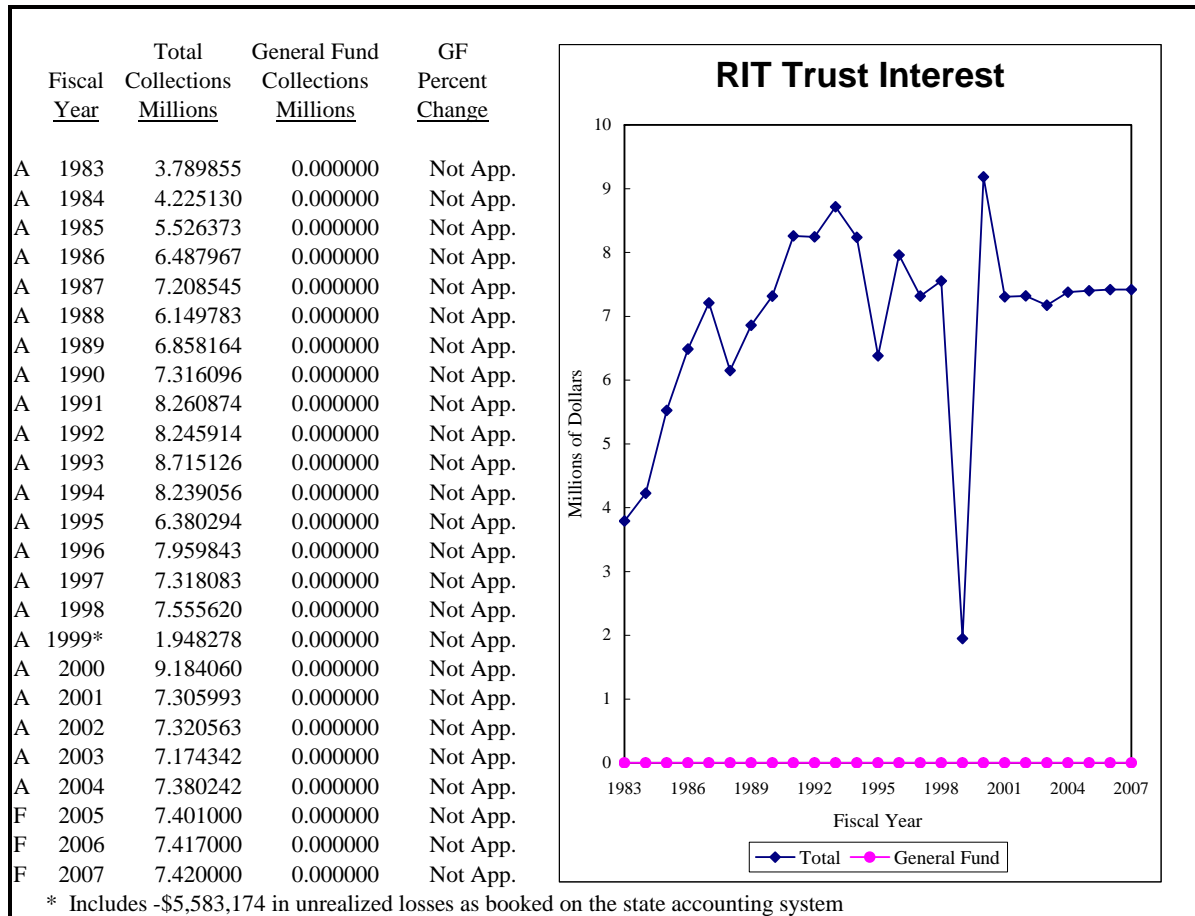
## Revenue Estimate Profile

### Resource Indemnity Trust Interest

the timing of when new monies become available. Because a portion of the trust is invested on a short-term basis, an assumption is made for the balance of trust funds in STIP. This balance is then multiplied by the short-term interest rate<sup>4</sup> to determine short-term interest income.

Once investment interest has been calculated for these three components, the sum of these comprises total RIT income.

#### Revenue Projection:



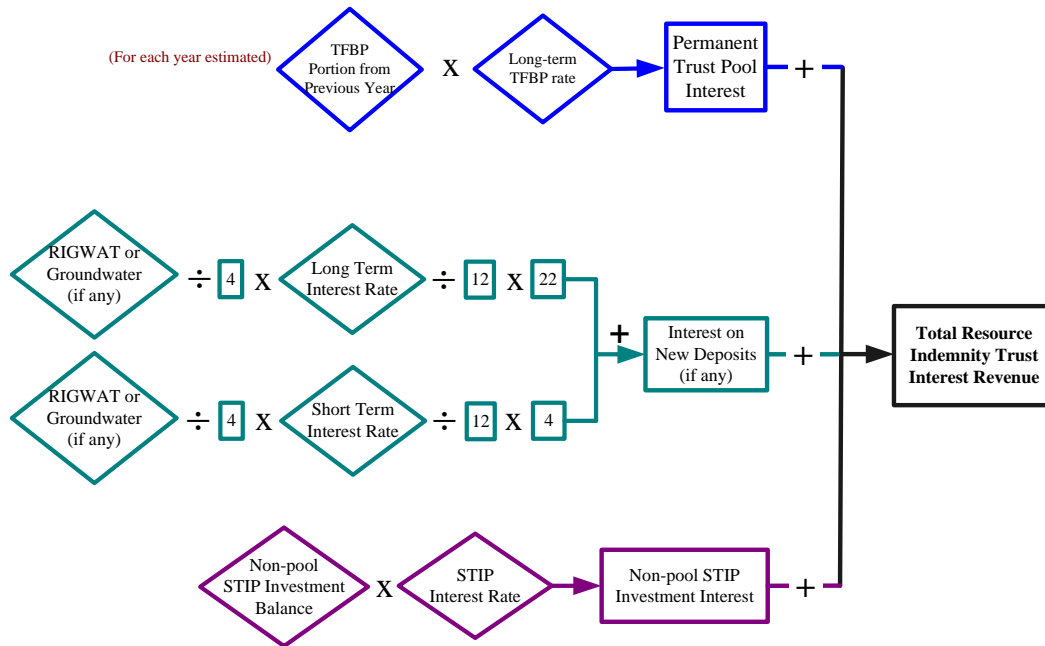
<sup>4</sup> The estimate of short-term interest rates is developed by making a simple average of 3- month corporate paper, 6- month corporate paper, 3- month T bills, and 6- month T bills.

# Legislative Fiscal Division

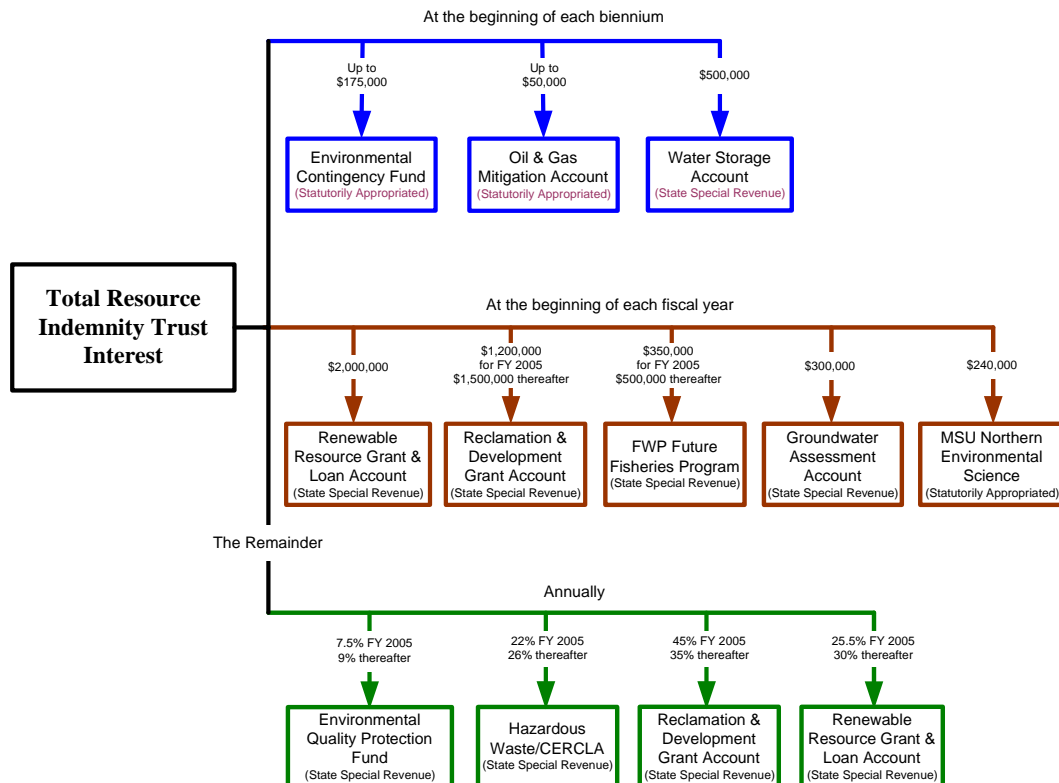
## Revenue Estimate Profile

### Resource Indemnity Trust Interest

#### Forecast Methodology



#### Distribution Methodology



# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

#### Revenue Estimate Assumptions:

|          | t      | Total Rev. | GF Rev.  | TFBP     | STIP     |
|----------|--------|------------|----------|----------|----------|
|          | Fiscal | Millions   | Millions | Interest | Interest |
|          |        |            |          | Millions | Millions |
| Actual   | 2000   | 9.184060   | 0.000000 |          |          |
| Actual   | 2001   | 7.305993   | 0.000000 |          |          |
| Actual   | 2002   | 7.320563   | 0.000000 | 7.286148 | 0.034415 |
| Actual   | 2003   | 7.174342   | 0.000000 | 7.161271 | 0.013072 |
| Actual   | 2004   | 7.380242   | 0.000000 | 7.375168 | 0.005073 |
| Forecast | 2005   | 7.401000   | 0.000000 | 7.375198 | 0.026106 |
| Forecast | 2006   | 7.417000   | 0.000000 | 7.389065 | 0.027823 |
| Forecast | 2007   | 7.420000   | 0.000000 | 7.389065 | 0.031071 |

|          | t      | Net Tax     | New Deposit | Non Pool | Non Pool |
|----------|--------|-------------|-------------|----------|----------|
|          | Fiscal | New Deposit | Long Term   | STIP     | STIP Bal |
|          |        | Millions    | Rate        | Rate     | Millions |
| Actual   | 2000   | 3.391472    | 6.3370%     | 5.9500%  | 3.712675 |
| Actual   | 2001   | 2.205880    | 6.8830%     | 6.6400%  | 1.557391 |
| Actual   | 2002   | 1.588631    | 6.3370%     | 3.5945%  | 2.175871 |
| Actual   | 2003   | 0.000000    | 5.7290%     | 2.1032%  | 0.740511 |
| Actual   | 2004   | -0.000188   | 5.3680%     | 1.9674%  | 0.644299 |
| Forecast | 2005   | 0.252454    | 5.4930%     | 2.9685%  | 0.644299 |
| Forecast | 2006   | 0.000000    | 5.8690%     | 4.3184%  | 0.644299 |
| Forecast | 2007   | 0.000000    | 6.1860%     | 4.8225%  | 0.644299 |

|          | t      | Hazardous | Environmental | Renewable | Reclamation | Environmental |
|----------|--------|-----------|---------------|-----------|-------------|---------------|
|          | Fiscal | Waste     | Quality       | Resource  | Development | Contingency   |
|          |        | Millions  | Millions      | Millions  | Millions    | Millions      |
| Actual   | 2000   | 0.941319  | 0.319852      | 3.721445  | 3.176444    | 0.175000      |
| Actual   | 2001   | 0.796322  | 0.274126      | 3.259425  | 2.676120    | 0.000000      |
| Actual   | 2002   | 0.534446  | 0.185001      | 3.356669  | 2.219447    | 0.175000      |
| Actual   | 2003   | 0.678555  | 0.231326      | 3.026507  | 2.587954    | 0.000000      |
| Actual   | 2004   | 0.564353  | 0.192393      | 2.894137  | 2.354359    | 0.175000      |
| Forecast | 2005   | 0.728420  | 0.248325      | 3.084305  | 2.689950    | 0.000000      |
| Forecast | 2006   | 0.559520  | 0.193680      | 2.885600  | 2.253200    | 0.175000      |
| Forecast | 2007   | 0.748800  | 0.259200      | 3.104000  | 2.508000    | 0.000000      |

|          | t      | Water    | Oil & Gas | FWP      | Groundwater |
|----------|--------|----------|-----------|----------|-------------|
|          | Fiscal | Storage  | Receipts  | Receipts | Receipts    |
|          |        | Millions | Millions  | Millions | Millions    |
| Actual   | 2000   | 0.500000 | 0.050000  | 0.000000 | 0.300000    |
| Actual   | 2001   | 0.000000 | 0.000000  | 0.000000 | 0.300000    |
| Actual   | 2002   | 0.500000 | 0.050000  | 0.000000 | 0.300000    |
| Actual   | 2003   | 0.000000 | 0.000000  | 0.350000 | 0.300000    |
| Actual   | 2004   | 0.500000 | 0.050000  | 0.350000 | 0.300000    |
| Forecast | 2005   | 0.000000 | 0.000000  | 0.350000 | 0.300000    |
| Forecast | 2006   | 0.500000 | 0.050000  | 0.500000 | 0.300000    |
| Forecast | 2007   | 0.000000 | 0.000000  | 0.500000 | 0.300000    |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Trust Interest

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**Revenue Description:** Due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent trust fund. Since the legislature has not yet determined the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. Due to passage of Initiative 146 by the electorate in November 2002, 32 percent of the tobacco settlement money is to fund tobacco prevention and 17 percent is to fund the Children's Health Insurance Program. As amended in SB 485 by the 2003 legislature, money from these allocations can also be used to fund human services programs and to match federal Medicaid funds through fiscal 2005. The remaining 11 percent of the money is deposited to the general fund. Interest earnings from the trust can only be used for tobacco disease prevention programs and programs providing benefits, services, or coverage that are related to the health care needs of Montanans. The earnings cannot be used to replace state or federal money used to fund tobacco disease prevention programs and state programs that existed on December 31, 1999, providing benefits, services, or coverage of the health care needs of Montanans.

**Applicable Tax Rate(s):** NA

**Distribution:** Interest earnings from the trust fund are distributed:

1. 90 percent to a state special revenue account for appropriation by the legislature for disease prevention programs and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and
2. 10 percent to the tobacco settlement trust fund.

**Collection Frequency:** Trust interest earnings are deposited monthly to the state special revenue account and the trust.

**Major Drivers:**

- Interest and bond rates on investments
- Balance in the trust fund
- Constitutional requirements

**Potential Factors Influencing Change:**

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Changes in distribution of proceeds to the trust (i.e. greater than 40%)
    - New deposits to the trust from state special revenue account (if any)
  - Federal legislative impacts - None

**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:** Department of Justice

**Statutory Reference:**

Tax Rate – NA

Distribution (MCA) – Montana Constitution Article XII, Section 4; 17-6-601; 17-6-603

Date Due – Interest deposits are mostly made monthly, but none in July and two in June



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# Legislative Fiscal Division

## Revenue Estimate Profile Tobacco Trust Interest

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**% of Total FY 2004 General Fund Revenue:** N/A

**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast the tobacco settlement trust interest earnings is a multi-step process. In order to estimate total investment earnings for the trust, income must be calculated on three separate components: 1) tobacco settlement trust pool interest; 2) interest on new deposits; and 3) short-term interest earnings.

As of October 1, 1995, all fixed-income investments held by the state’s major trust funds were transferred to a newly-created Trust Fund Bond Pool (TFBP). The first step involves determining the permanent trust TFBP earnings. For the first year to be estimated, the applicable portion of the TFBP at the end of the previous fiscal year is multiplied by the estimated long-term TFBP interest rate. Subsequent years are estimated by adding any new deposits of tobacco settlement proceeds multiplied by the long-term interest rate to the last year’s estimate. Investment income on any new deposits is calculated by multiplying the forecast amount by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term TFBP interest rate thereafter. Tobacco settlement revenue is forecast as part of the tobacco revenue settlement methodology.

Investment income on new deposits from the tobacco settlement plus 10 percent of interest earnings from the trust is calculated by multiplying the forecast amounts by the appropriate interest rate. The invested balance varies in accordance with the timing of when new revenue becomes available. For example, the revenue from the settlement received around April 15 of each year will earn interest at the short-term (STIP) rate for one month, after which they will earn interest at the long-term rate for the remainder of the biennium.

Finally, because a portion of the trust is invested on a short-term basis, an assumption is made for the balance of trust funds in STIP. This balance is then multiplied by the short-term interest rate to determine short-term interest income.

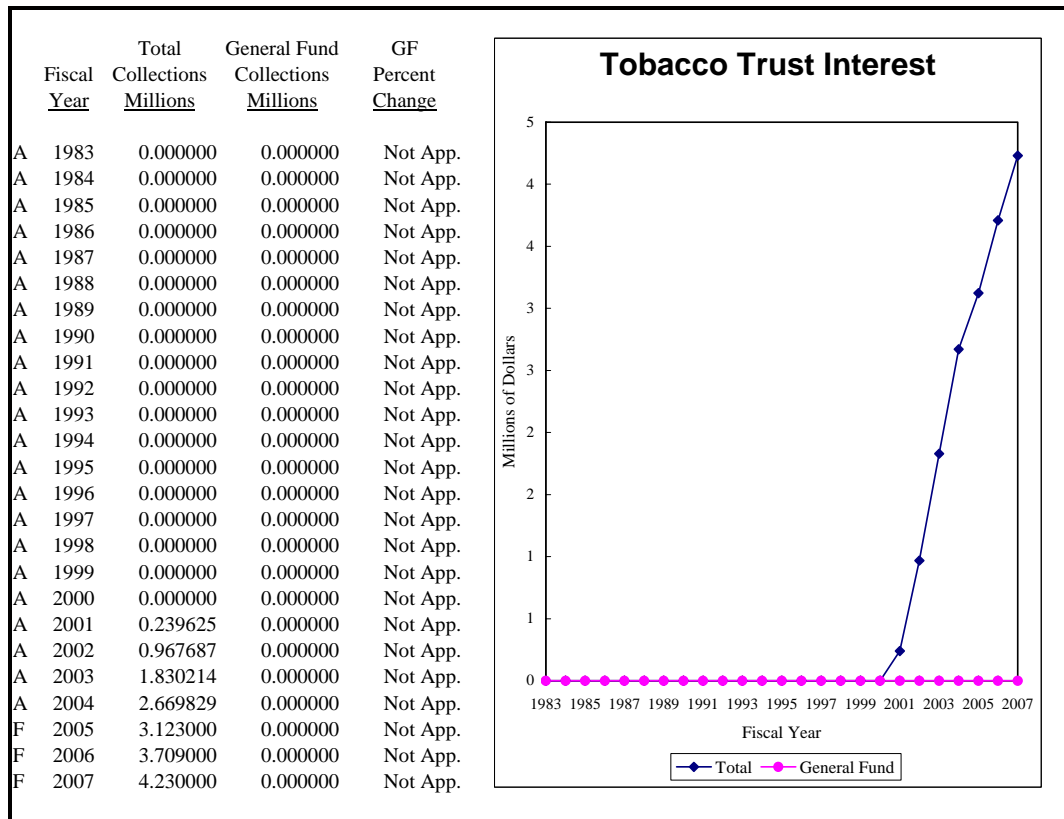
Once interest has been calculated for these three components, the sum of these comprises total tobacco settlement trust investment income.

# Legislative Fiscal Division

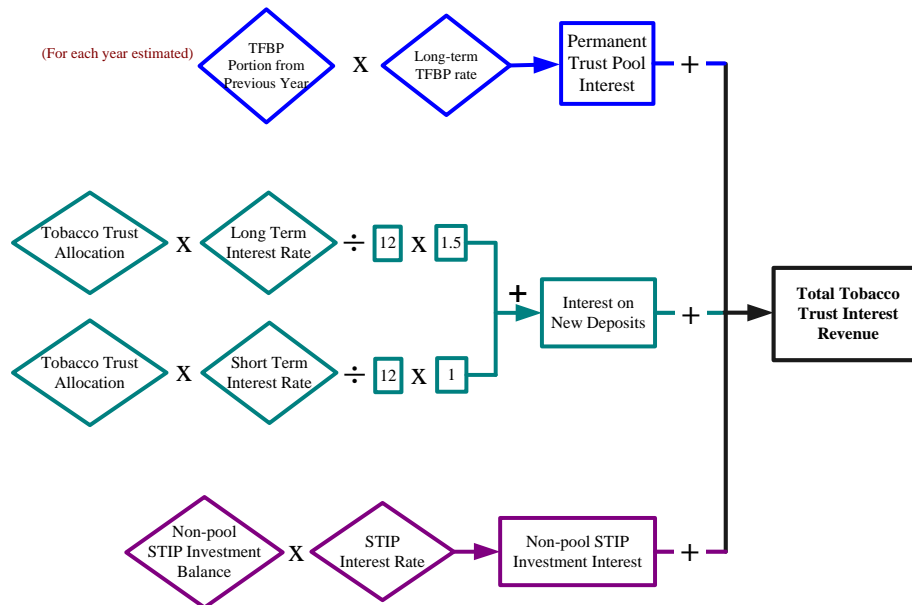
## Revenue Estimate Profile

### Tobacco Trust Interest

#### Revenue Projection:



#### Forecast Methodology

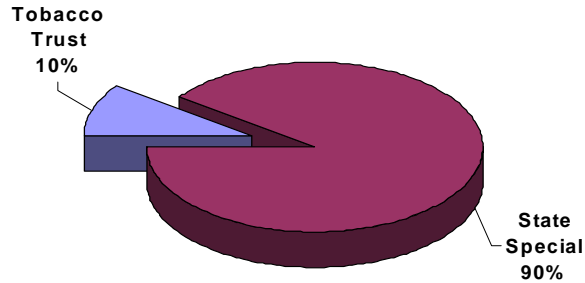


# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Trust Interest

#### Distribution Methodology



#### Revenue Estimate Assumptions

|          | t             | Total Rev.      | GF Rev.         | TFBP            | STIP            | 90 Percent      | 10 Percent      |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> | <u>Interest</u> | <u>Interest</u> |
|          |               |                 |                 | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 0.000000        | 0.000000        |                 |                 |                 |                 |
| Actual   | 2001          | 0.239625        | 0.000000        |                 |                 |                 |                 |
| Actual   | 2002          | 0.967687        | 0.000000        | 0.955252        | 0.012435        |                 |                 |
| Actual   | 2003          | 1.830214        | 0.000000        | 1.816256        | 0.013958        | 1.647000        | 0.183000        |
| Actual   | 2004          | 2.669829        | 0.000000        | 2.661875        | 0.007953        | 2.403000        | 0.267000        |
| Forecast | 2005          | 3.123000        | 0.000000        | 3.093021        | 0.030428        | 2.811000        | 0.312000        |
| Forecast | 2006          | 3.709000        | 0.000000        | 3.671850        | 0.037204        | 3.338000        | 0.371000        |
| Forecast | 2007          | 4.230000        | 0.000000        | 4.188773        | 0.041627        | 3.807000        | 0.423000        |

|          | t             | Tobacco            | New Deposit      | Non Pool    | Non Pool        |
|----------|---------------|--------------------|------------------|-------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u> | <u>Long Term</u> | <u>STIP</u> | <u>STIP Bal</u> |
|          |               | <u>Millions</u>    | <u>Rate</u>      | <u>Rate</u> | <u>Millions</u> |
| Actual   | 2000          | 0.000000           | 6.3370%          | 5.9500%     | 0.000000        |
| Actual   | 2001          | 10.650750          | 6.8830%          | 6.6400%     | 0.249457        |
| Actual   | 2002          | 12.432000          | 6.3370%          | 3.5945%     | 0.584877        |
| Actual   | 2003          | 12.563000          | 5.7290%          | 2.1032%     | 0.251155        |
| Actual   | 2004          | 10.852000          | 5.3680%          | 1.9674%     | 0.132682        |
| Forecast | 2005          | 10.708000          | 5.4930%          | 2.9685%     | 0.132682        |
| Forecast | 2006          | 8.746000           | 5.8690%          | 4.3184%     | 0.132682        |
| Forecast | 2007          | 8.766000           | 6.1860%          | 4.8225%     | 0.132682        |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

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**Revenue Description:** In the June 1992 election, voters approved a referendum to create the Treasure State Endowment Fund (TSEF) within the permanent coal tax trust fund. The TSEF received a \$10.0 million grant from the permanent trust principal in fiscal 1994 and receives 37.5 percent of total coal severance tax collections from July 1999 through June 2003. Beginning fiscal 2004, the trust receives 25 percent of total collections. Interest earned on the TSEF is used to finance local infrastructure projects, as prioritized by the Departments of Commerce and Natural Resources and Conservation and authorized by the legislature via the Treasure State Endowment Program (TSEP). The deposit of coal severance tax revenue to this fund terminates the end of fiscal 2016.

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest earnings are allocated to the Department of Commerce to fund TSEP.

**Collection Frequency:** Monthly

#### Major Drivers:

- Interest and bond rates on loans and investments
- Balance in the coal severance tax sub-fund available for investment
- Water bond subsidy

#### Potential Factors Influencing Change:

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Coal price
  - Coal production costs
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Coal severance tax and distribution related changes
    - Constitutional restrictions on types of investments (i.e. no investments in equities)
    - Appropriations from the trust sub-fund
  - Federal legislative impacts
    - Influences on national interest and bond rates

**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:** Department of Commerce and Department of Natural Resources and Conservation

#### Statutory Reference:

Tax Rate – NA  
Distribution (MCA) – 17-5-703 (4c); use of earnings (90-6-701(2))  
Date Due (MCA) – Monthly (17-5-703 (4c))

**% of Total FY 2004 General Fund Revenue:** N/A

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

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**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

The methodology used to forecast TSEF interest earnings is a multi-step process. In order to estimate total investment earnings for the trust, income must be calculated on three separate components: 1) TSEF pool interest; 2) interest on new deposits; and 3) short-term interest earnings.

As of October 1, 1995, all fixed-income investments held by the state’s major trust funds were transferred to a newly-created Trust Fund Bond Pool (TFBP). The first step involves determining the permanent trust TFBP earnings. For the first year to be estimated, the applicable portion of the TFBP at the end of the previous fiscal year is multiplied by the estimated long-term TFBP interest rate. Subsequent years are estimated by adding the forecast amount of the coal tax allocation for that year (less the applicable percentage of the water bond subsidy) multiplied by the long-term interest rate to the last year’s estimate. Investment income on new deposits is calculated by multiplying the forecast amount for quarterly coal severance tax collections (less a portion of the water bond subsidy) by the appropriate interest rate. The new deposits earn interest at the STIP rate for the first month and at the long-term TFBP interest rate thereafter. Coal severance tax collections are forecast as part of the coal severance tax methodology

Investment income on new deposits is calculated by multiplying the forecast amount for quarterly coal severance tax collections (less a portion of the water bond subsidy) by the appropriate interest rate. The invested balance used varies in accordance with the timing of when new monies become available. For example, coal severance tax collections due for the first quarter of the biennium will earn interest at the short-term (STIP) rate for one month, after which they will earn interest at the long-term rate for the remainder of the biennium. (Coal severance tax collections are forecast as part of the coal severance tax methodology.)

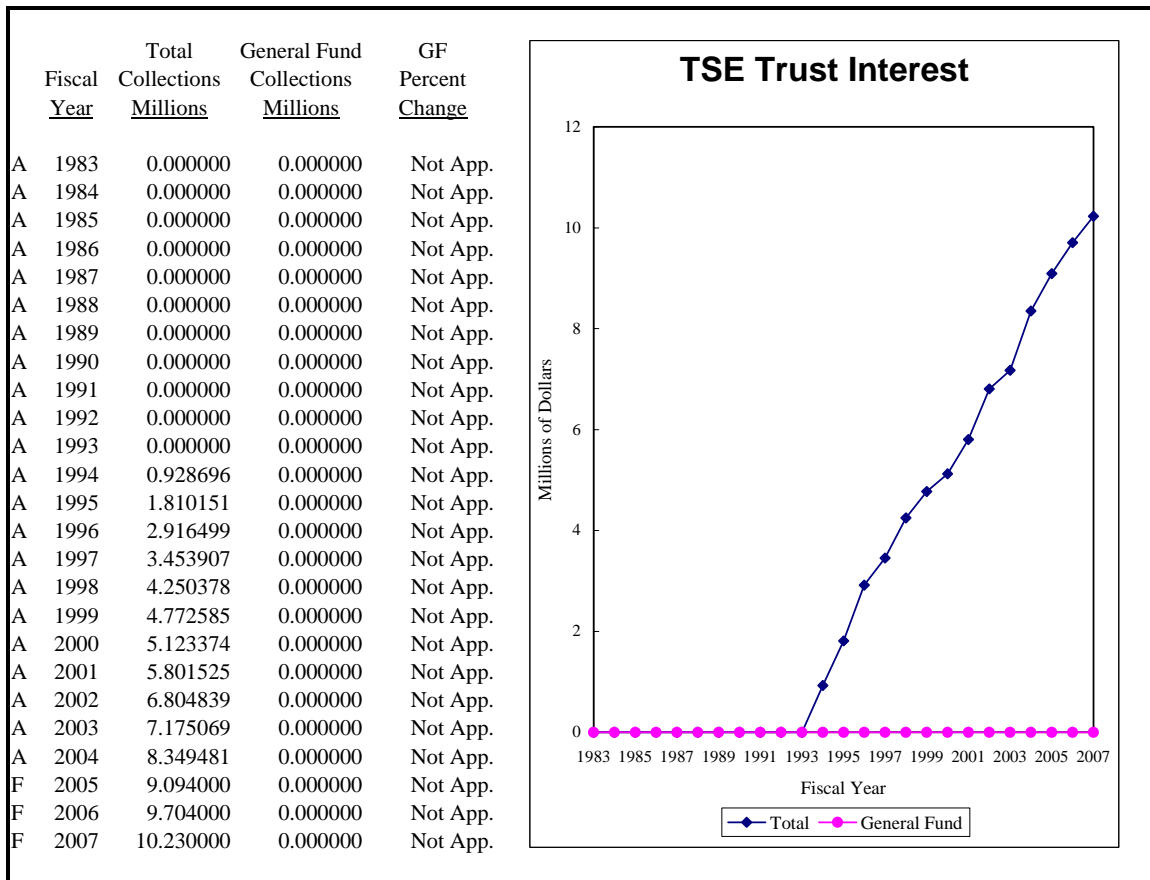
Once investment income has been calculated for these three components, the sum of these comprises total TSEF investment income.

# Legislative Fiscal Division

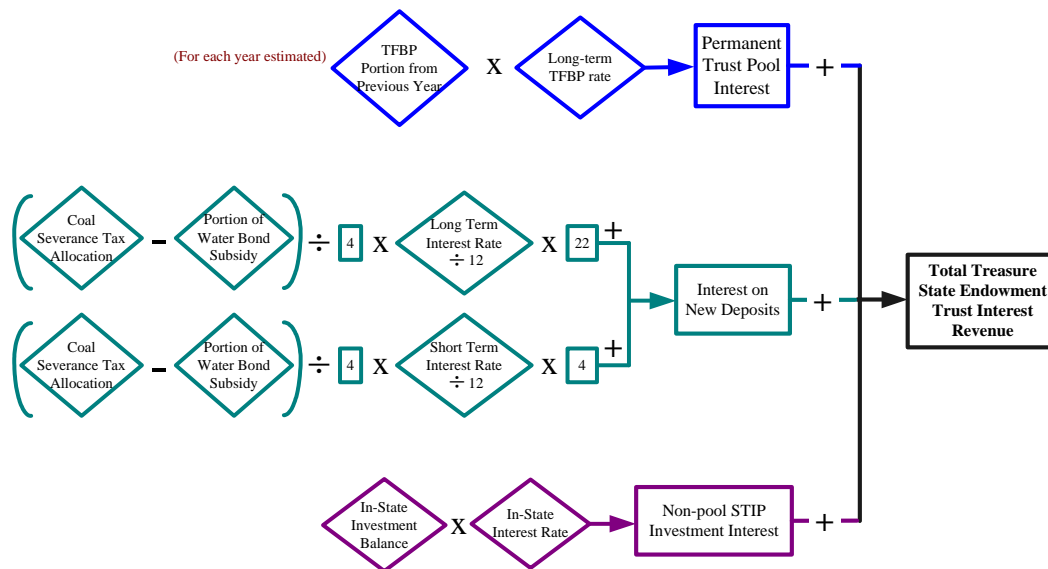
## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

#### Revenue Projection:



#### Forecast Methodology



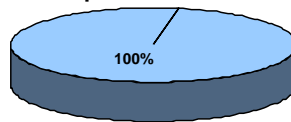
# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

#### Distribution Methodology

**State Special Revenue Fund**



#### Revenue Estimate Assumptions

|          | <u>t</u>      | <u>Total Rev.</u> | <u>GF Rev.</u>  | <u>TFBP</u>     | <u>STIP</u>     | <u>Loan</u>     |
|----------|---------------|-------------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>Millions</u>   | <u>Millions</u> | <u>Interest</u> | <u>Interest</u> | <u>Interest</u> |
|          |               |                   |                 | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 5.123374          | 0.000000        |                 |                 |                 |
| Actual   | 2001          | 5.801525          | 0.000000        |                 |                 |                 |
| Actual   | 2002          | 6.804839          | 0.000000        | 5.107385        | 0.166917        | 1.530537        |
| Actual   | 2003          | 7.175069          | 0.000000        | 5.718544        | 0.091977        | 1.364547        |
| Actual   | 2004          | 8.349481          | 0.000000        | 6.929583        | 0.086784        | 1.333115        |
| Forecast | 2005          | 9.094000          | 0.000000        | 7.441443        | 0.542210        | 1.110743        |
| Forecast | 2006          | 9.704000          | 0.000000        | 7.897801        | 0.695565        | 1.110743        |
| Forecast | 2007          | 10.230000         | 0.000000        | 8.361511        | 0.757602        | 1.110743        |

|          | <u>t</u>      | <u>Net Coal Tax</u> | <u>New Deposit</u> | <u>Non Pool</u> | <u>Non Pool</u> | <u>Non Pool</u> | <u>Non Pool</u> |
|----------|---------------|---------------------|--------------------|-----------------|-----------------|-----------------|-----------------|
|          | <u>Fiscal</u> | <u>New Deposit</u>  | <u>Long Term</u>   | <u>STIP</u>     | <u>Loan</u>     | <u>STIP Bal</u> | <u>Loan Bal</u> |
|          |               | <u>Millions</u>     | <u>Rate</u>        | <u>Rate</u>     | <u>Rate</u>     | <u>Millions</u> | <u>Millions</u> |
| Actual   | 2000          | 13.301172           | 7.0160%            | 5.9500%         | 0.0000%         | 12.385400       | 0.000000        |
| Actual   | 2001          | 12.126440           | 6.8830%            | 6.6400%         | 0.0000%         | 4.384216        | 19.223452       |
| Actual   | 2002          | 11.855268           | 6.3370%            | 3.5945%         | 8.2549%         | 7.426826        | 17.858672       |
| Actual   | 2003          | 11.033830           | 5.7290%            | 2.1032%         | 7.4418%         | 11.674509       | 18.813738       |
| Actual   | 2004          | 7.886171            | 5.3680%            | 1.9674%         | 8.2678%         | 10.526991       | 13.434570       |
| Forecast | 2005          | 8.308000            | 5.4930%            | 2.9685%         | 8.2678%         | 10.526991       | 13.434570       |
| Forecast | 2006          | 7.901000            | 5.8690%            | 4.3184%         | 8.2678%         | 10.526991       | 13.434570       |
| Forecast | 2007          | 7.721000            | 6.1860%            | 4.8225%         | 8.2678%         | 10.526991       | 13.434570       |

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

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**Revenue Description:** The Department of Administration, Board of Investments is responsible for investing all state funds. Title 17, Chapter 6, MCA, provides guidelines under which the funds must be invested. Unless specifically stated by statute, all interest earned on these investments is deposited in the general fund. Treasury cash is invested in a mixture of short and medium-term investments. Consequently, the interest assumptions adopted by the legislature incorporate a blend of short and intermediate-term rates. When needed to address cash flow problems, the state typically issues tax and revenue anticipation notes (TRANS). The legislature would then adopt TRANS issuance assumptions, since this affects the average invested balance. No TRANS issues are anticipated in the 2007 biennium.

**Applicable Tax Rate(s):** N/A

**Distribution:** All investment earnings on the treasury cash account (TCA) are deposited into the general fund.

**Collection Frequency:** On-going

#### Major Drivers:

- Cash in the state treasury available for investing
- Short and intermediate term interest rates
- TRANS

#### Potential Factors Influencing Change:

- Economic Factors
  - Prevailing national interest rates
  - Inflationary pressures
  - State bond rating (for TRANS)
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Relationship between state spending (appropriations) and revenue (tax policy) including the timing of expenditures and revenue collections
  - Federal legislative impacts
    - Influences on national interest rates

**Data Source(s):** SABHRS, Department of Administration, *Wall Street Journal*, Global Insight

**Contacts:** Department of Administration

#### Statutory Reference:

Tax Rate – NA

Distribution (MCA) – 17-6-202(2)

Date Due – interest deposits are mostly made monthly, but two in June and none in July

**% of Total FY 2004 General Fund Revenue:** 0.46%



# Legislative Fiscal Division

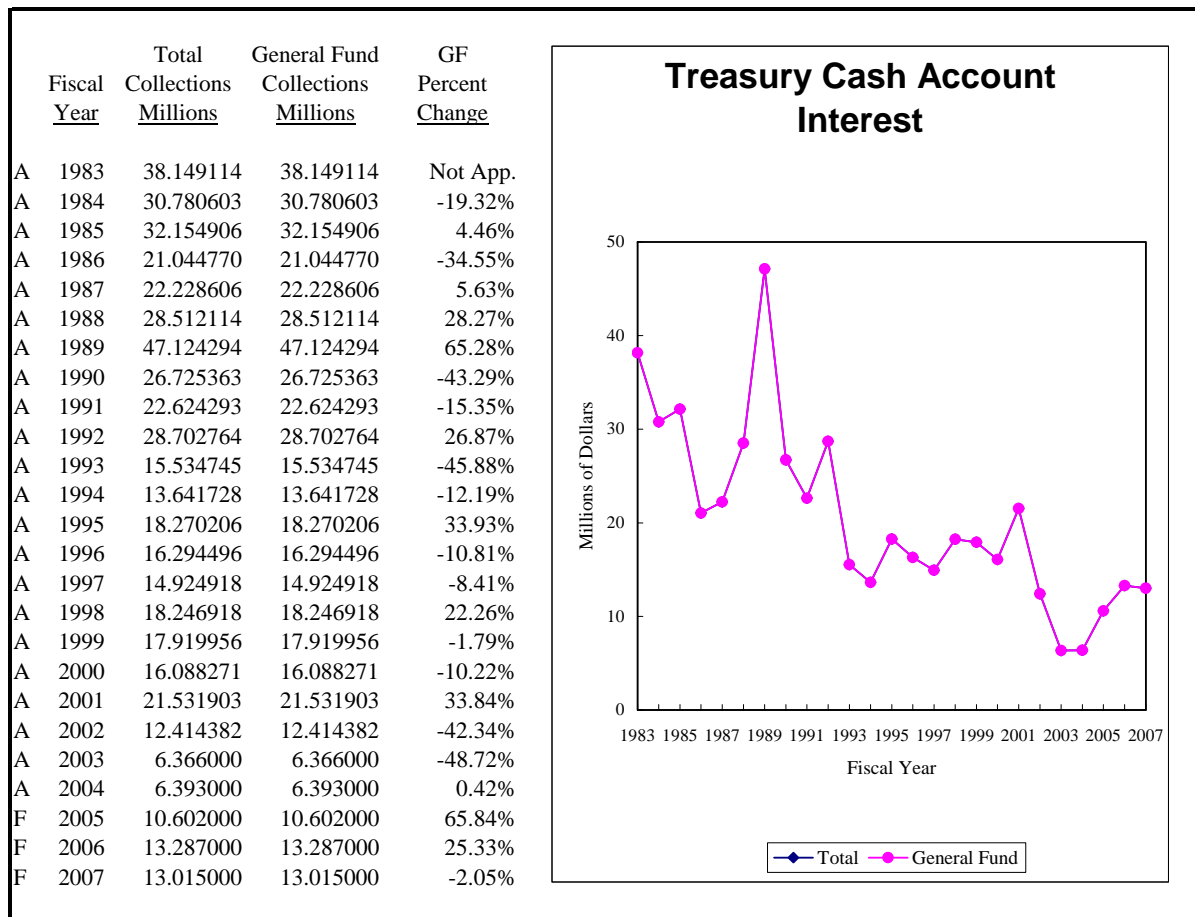
## Revenue Estimate Profile

### Treasury Cash Account Interest

**Revenue Estimate Methodology:** The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

To estimate TCA investment earnings, the LFD determines the level of cash that will be available to earn interest. This step involves consideration of four key variables: 1) the average balance of the TCA; 2) the level and term of TRANS to be issued, if needed; 3) major legislation changes impacting cash; and 4) any other major cash balance changes that may occur. The sum of these variables, multiplied by the short-term interest rate, provides the estimated revenue for TCA earnings.

#### Revenue Projection:

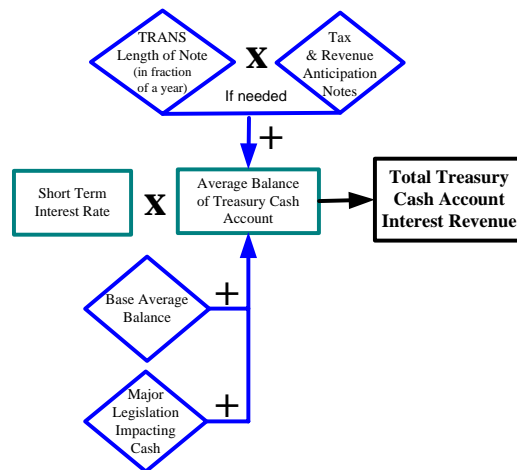


# Legislative Fiscal Division

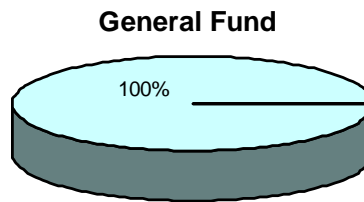
## Revenue Estimate Profile

### Treasury Cash Account Interest

#### Forecast Methodology



#### Distribution Methodology



#### Revenue Estimate Assumptions

|          | t      | Total Rev. | GF Rev.   | Avg. Bal.  | Interest | Issue    | TRANS    |
|----------|--------|------------|-----------|------------|----------|----------|----------|
|          | Fiscal | Millions   | Millions  | Millions   | Rate     | Rate     | Cost     |
| Actual   | 2000   | 16.088271  | 16.088271 | 303.627590 | 0.052987 | 0.000000 | 0.000000 |
| Actual   | 2001   | 21.531903  | 21.531903 | 334.705188 | 0.064331 | 0.000000 | 0.000000 |
| Actual   | 2002   | 12.414382  | 12.414382 | 273.343304 | 0.045417 | 0.000000 | 0.000000 |
| Actual   | 2003   | 6.366439   | 6.366439  | 273.928913 | 0.023241 | 0.026498 | 1.639327 |
| Actual   | 2004   | 6.392992   | 6.392992  | 311.477974 | 0.020525 | 0.002027 | 0.099188 |
| Forecast | 2005   | 10.602000  | 10.602000 | 311.477974 | 0.034039 | 0.021977 | 0.000000 |
| Forecast | 2006   | 13.287000  | 13.287000 | 311.477974 | 0.042661 | 0.027544 | 0.000000 |
| Forecast | 2007   | 13.015000  | 13.015000 | 311.477974 | 0.041788 | 0.026980 | 0.000000 |

|          | t      | Base Bal.  | TRANS     | TRANS    |
|----------|--------|------------|-----------|----------|
|          | Fiscal | Millions   | Millions  | Length   |
| Actual   | 2000   | 303.628000 | 0.000000  | 0.000000 |
| Actual   | 2001   | 334.705000 | 0.000000  | 0.000000 |
| Actual   | 2002   | 273.343000 | 0.000000  | 0.000000 |
| Actual   | 2003   | 212.062000 | 92.800000 | 0.666667 |
| Actual   | 2004   | 262.545000 | 73.400000 | 0.666667 |
| Forecast | 2005   | 311.477974 | 0.000000  | 0.000000 |
| Forecast | 2006   | 311.477974 | 0.000000  | 0.000000 |
| Forecast | 2007   | 311.477974 | 0.000000  | 0.000000 |